NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

Congressional Information Service, Inc
Washington, D.C.

S. HRG. 98-994 PT. 2

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1985

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

H.R. 5743

AN ACT MAKING APPROPRIATIONS FOR AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1985, AND FOR OTHER PURPOSES

PART 2 (Pages 1-636)

DEPARTMENT OF AGRICULTURE
FOOD AND DRUG ADMINISTRATION
COMMODITY FUTURES TRADING COMMISSION
FARM CREDIT ADMINISTRATION
GENERAL ACCOUNTING OFFICE

Printed for the use of the Committee on Appropriations

U.S. GOVERNMENT PRINTING OFFICE
31-581 O WASHINGTON : 1984

S181-50

COMMITTEE ON APPROPRIATIONS

SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES

THAD COCHRAN, Mississippi, *Chairman*

JAMES A. McCLURE, Idaho
MARK ANDREWS, North Dakota
JAMES ABDNOR, South Dakota
ROBERT W. KASTEN, JR., Wisconsin
MACK MATTINGLY, Georgia
ARLEN SPECTER, Pennsylvania
MARK O. HATFIELD, Oregon
ex officio

THOMAS F. EAGLETON, Missouri
JOHN C. STENNIS, Mississippi
ROBERT C. BYRD, West Virginia
LAWTON CHILES, Florida
QUENTIN N. BURDICK, North Dakota
JIM SASSER, Tennessee

Professional Staff
IRMA I. HANNEMAN
FOREST THIGPEN
KENNETH E. AUER (Minority)
Administrative Support
KONI L. GLEASON

CONTENTS

THURSDAY, MARCH 29, 1984

Department of Agriculture: Page
Rural Electrification Administration 1
Federal Crop Insurance Corporation 41

WEDNESDAY, APRIL 4, 1984

Food and Drug Administration 105
Commodity Futures Trading Commission 167

MATERIAL SUBMITTED IN LIEU OF HEARINGS

Department of Agriculture:

Office of the Secretary 218
Departmental Administration 218
Office of Governmental and Public Affairs 265
Office of the Inspector General 308
Office of the General Counsel 325
Office of Rural Development Policy 337
Animal and Plant Health Inspection Service 356
Agricultural Marketing Service 396
Office of Transportation 418
Federal Grain Inspection Service 443
Agricultural Cooperative Service 456
Packers and Stockyards Administration 467
Food Safety and Inspection Service 475
Economic Research Service 511
Statistical Reporting Service 525
World Agricultural Outlook Board 542
Farm Credit Administration 551
General Accounting Office (Reports and ongoing studies) 586

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1985

THURSDAY, MARCH 29, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 2:10 p.m., in room SD–124, Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran, Andrews, and Abdnor.

DEPARTMENT OF AGRICULTURE

RURAL ELECTRIFICATION ADMINISTRATION

STATEMENT OF HAROLD V. HUNTER, ADMINISTRATOR

ACCOMPANIED BY:
JACK VAN MARK, DEPUTY ADMINISTRATOR
JOSEPH S. ZOLLER, ASSISTANT ADMINISTRATOR, ELECTRIC
JOHN H. ARNESEN, ASSISTANT ADMINISTRATOR, TELEPHONE
BLAINE D. STOCKTON, JR., ASSISTANT ADMINISTRATOR, MANAGEMENT
THOMAS M. SCANLON, DIRECTOR, OFFICE OF BUDGET
MICHAEL W. KELLY, ASSISTANT GENERAL COUNSEL, ELECTRIC AND TELEPHONE DIVISION, OFFICE OF THE GENERAL COUNSEL
ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

INTRODUCTION OF WITNESSES

Senator COCHRAN. The subcommittee will come to order.

Today, we are going to be hearing from witnesses representing two agencies which come within the jurisdiction of this subcommittee. We have the Rural Electrification Administration and the Federal Crop Insurance Corporation.

The Rural Electrification Administration makes direct loans and guarantees loans made primarily by the Federal Financing Bank. These loans are for the purpose of extending and improving electric and telephone service to rural areas.

The Federal Crop Insurance Corporation is a wholly owned Government corporation created in 1980 to provide an all-risk crop insurance program, which encourages producer involvement by offering a Federal subsidy of up to 30 percent of the producer's total premium.

We are happy to have at the hearing today the Administrator of REA, Harold Hunter; the manager of the Federal Crop Insurance Corporation, Merritt Sprague; and our USDA Deputy Budget Officer, Bob Sherman. You have other colleagues with you, and I think what we will do is proceed first with the REA.

PREPARED STATEMENT

We have statements from both agencies, which we thank you for. We will put Mr. Hunter's prepared statement in the record at this point and ask you to make any summary comments or statements that you would like at this point.

[The statement of Harold V. Hunter follows:]

STATEMENT OF HAROLD V. HUNTER

Mr. Chairman and members of the Committee, it is a pleasure to appear once again before this Committee to discuss the Rural Electrification Administration's, (REA) annual budget and program proposals. The fiscal year 1985 budget proposals are not significantly different from our proposals of a year ago. Neither is the reasoning behind these proposals.

Economic Recovery and Budget Deficits

The national economy has come a long way in the past three years. We have reduced the inflation rate from over 12 percent down to around 3 percent. Interest rates have been cut almost in half. More Americans have jobs today than ever before. The unemployment rate is being reduced and will go down further. There is still one economic consideration which bothers us all and which threatens continuing economic recovery in the 1980's. This is the size of the federal budget deficits.

As President Reagan said in his State of the Union Address in January:

> "The key to a dynamic decade is vigorous economic growth, our first great goal. We might well begin with common sense in federal budgeting: government spending no more than government takes in."

Because of high budget deficits, the federal government has to enter the credit markets in this country and borrow billions of dollars. These funds which are withdrawn reduce the amount of money available for private investment, investment which would be determined through market forces, not government allocation.

I support the President in this pursuit, and his fiscal year 1985 budget, including the REA proposals, are based on this concern.

Recent Activities of REA

Before we get into the actual budget numbers, I would first like to mention some of the things that have been going on within REA.

Last November, we reached agreement with the Federal Financing Bank which will allow electric and telephone borrowers, who receive a loan from the Bank under an REA guarantee, to choose either a long-term or short-term period. They will be able to continually rollover the short-term loan, at two-year intervals for the entire 35-year period rather than only during the first seven years as was previously authorized. This gives the borrowers greater flexibility and helps prevent them from being locked-in to a high interest rate that may be in effect at any given point in time.

We recently approved a financing arrangement between one of our borrowers, the Sunflower Electric Cooperative in Kansas, and a consortium of banks, headed by the Irving Trust Company of New York. The financing provided will allow Sunflower to avoid an immediate and large increase in its rates to cover the total operating costs of a new 296 megawatt coal-fired generating plant. Instead, the costs will be phased-in over a 5-year period, allowing rates to increase gradually.

This arrangement is significant for several reasons. One, it shows that borrowers, because of their increasing financial strength, are becoming attractive investments for private lenders. Two, interest by private lenders reflects a more active and far-reaching business climate. Finally, as I mentioned earlier, reduced reliance on federal financing contributes to a healthy, vibrant economic recovery.

In the telephone program, we have recently changed our policy concerning the general funds levels of telephone borrowers. General funds are the borrowers own internally-generated funds. Prior to this change, in order for a borrower to receive a loan advance from REA, borrowers with general funds in excess of eight percent of total telephone plant or $100,000, whichever was greater, were required to use this excess to supplement loan funds. REA now allows borrowers to exclude from their general funds any funds invested in telecommunications projects, provided the amount does not exceed dividends and other distributions of margins.

This policy change will enable borrowers to enter into new rural telecommunications markets and provide services not included in the term "telephone service" in the REA Act. This will help rural areas, make telephone borrowers financially stronger and enhance REA loan security.

We have also taken a look at the way we do things internally. We have reorganized our electric program, returning to an area-office concept, which has proven to be an efficient and effective method of operation. It has also proven to be popular, both with our borrowers and with the REA staff. This reorganization provides for a one-point-of-contact structure, which eliminates unnecessary duplication of staff functions and which better serves the needs of our borrowers.

We are also putting more reliance on borrowers and their CPA's, the accountants that they hire to audit their books annually. The REA auditing staff will be limited to auditing REA loan funds. The borrowers' CPA's will determine adequacy of financial statements, internal control procedures and general records. This will allow the REA staff to do more audits for a larger number of borrowers and reduce overlap and duplication.

The REA Revolving Fund

For the past few years, I have been talking about the problems of the REA revolving fund. Put simply, the problem is the same as the problem confronting the total federal budget. It is simply spending more than it is taking in. The rural electric and telephone borrowers have realized this and have proposed legislation which they feel would remedy the situation. We do not feel that their proposal is one which provides for long-term stability of the fund and are therefore proposing an alternative.

This alternative ties into our 1985 budget proposals in that we feel insured loan levels from the fund can be reduced without hurting any electric or telephone system. Reduced loan levels would go a long way toward a solution for the revolving fund problems.

The 1985 Budget Proposals

Loan Programs

To reflect the dramatic reduction in insured loan applications received by REA and the continuing buildup of unadvanced loan funds, the 1985 budget proposals provide for insured electric loans of $500 million, a reduction of $350 million, or 41 percent, from this years' level.

For the telephone program, we are requesting $75 million for insured loans and $185 million from the Rural Telephone Bank, for a total of $260 million. This is a reduction of $175 million, or 40 percent, from this year.

The budget also proposes $1.2 billion for electric loan guarantee commitments and $125 million for telephone guarantees.

No appropriation is being proposed for the capitalization of Rural Telephone Bank stock.

We do not feel that these levels will have an adverse effect on REA borrowers. Substantial amounts of private capital are available to supplement REA loans. During fiscal year 1983, electric borrowers took advantage of these sources to the total of over $1.0 billion.

Reduced REA loan levels will help stabilize the RETRF while assuring that funds are available for those rural electric and telephone systems that really need help. This will also help the President in his pursuit of lower federal invasion of the credit market.

Consistent with the 1985 proposals, we are requesting rescission of the $30 million of the Class A Stock of the Rural Telephone Bank, made available during fiscal year 1984. These funds are not needed, because the Bank has virtually unlimited authority to borrow from Treasury.

We are also proposing rescission of the $197.9 million in direct appropriations for reimbursement to the REA revolving fund. In the calculation of this amount, interest actually paid by Treasury would be appropriated to REA. This is not as it should be, and, in fact doubles the costs to Treasury on funds it has lent to REA.

The REA Administrative Budget

The 1985 Budget requests $30,340,000 for administrative costs of the Agency. This $435,000 increase over the fiscal year 1984 amount is necessary to cover increases in the general operating expenses of the agency, including the annualization of the January 1984 pay raise. As part of the legislative package mentioned earlier, we are proposing that these expenses be funded on a user-charge basis. In other words, the beneficiaries of the loan programs would pay for the administrative costs associated with them.

Employment levels in 1985 will be reduced by five staff-years from the 1984 levels. This level will be adequate to effectively carry out the programs as provided in the budget.

We feel this to be a fair and responsive program. It does not abandon rural America. The entire program is consistent with the President's goal of reductions in the private sector's financial dependence on the Government, and for securing the financial integrity of the revolving fund for the future. National economic recovery entails some sacrifice from all sectors of the economy. The rural electric and telephone systems should be no exceptions. In the end, all sectors of the American economy will benefit by the reduced Federal presence in the market place. REA borrowers, as a whole, will ultimately become stronger financially as they become more independent of the Federal Government.

I feel the President's 1985 Budget proposals for the REA programs are worthy of your consideration. I strongly urge you to support them.

This is the end of my prepared remarks. I will be happy to answer any questions you might have.

OPENING REMARKS

Senator COCHRAN. Mr. Hunter, you may proceed.

Mr. HUNTER. Senator Cochran, we thank you for this opportunity, and I will try to make my oral comments brief, because I know that you gentlemen are extremely busy and that you do have our statement for the record. So if I may, I will run through a few items and then welcome any questions which you or the committee might have.

I would first like to express how pleased we are at the fact that the national economy has made some tremendous improvement since 3 years ago. We feel that how these budget proposals are resolved is an important part of continued economic recovery.

The President has stated, "The key to a dynamic decade is vigorous economic growth, our first great goal. We might well begin with common sense in Federal budgeting—Government spending no more than the Government takes in." We are concerned about high budget deficits. We are concerned about the entrance of the Federal Government into the credit markets of this country, and the impact it has on the availability of credit for the people in the private sector.

I fully support the President in his pursuit of vigorous economic growth and am very proud of what he has accomplished up to this point. I feel that it is appropriate for his program to be continued.

RECENT CHANGES IN REA

I would like to mention just a few things that REA has been involved in recently which indicate our efforts to be flexible and our willingness to respond to the changing needs of the electric utility and telecommunications industries. At the present time, they are both highly volatile and suffering a great deal of stress, and we recognize our responsibility to all concerned in that light.

REA has worked out a change with the Federal Financing Bank in our operating agreement that allows for our borrowers who have a loan from the FFB under an REA guarantee to choose either a long-term or a short-term interest rate. In the past, they were bound after the first 7 years of a loan to lock themselves into a long-term interest rate, and this revision provides them with a greater degree of flexibility. They are now allowed to continually rollover that short-term interest rate, at 2-year intervals for the life of the guarantee itself.

An increased awareness of the possibilities in the private financing sector has led many of our borrowers to take advantage of the leverage-lease and tax-exempt financing options that are available to them. We have worked closely with those borrowers, and although it has created some stress, it has, at the same time, shown that these types of arrangements could be accomplished. They defer the need for borrowings from the Federal Government and, in some cases, actually eliminate the need for Federal lending to ever take place.

In the telephone program, we have made some changes that have to do with the use of general funds. We now allow borrowers to exclude from their general fund computation any funds that are invested in telecommunications projects, provided the amount does not exceed dividends or any other distribution of margins. This gives them a greater degree of decisionmaking in their own business. This could make them financially stronger and enhance our own loan security at the same time.

We also have taken a look at our organizational structure. We have returned to the area-office concept in the electric program. This provides a single point of contact for our borrowers. We have received many positive comments on this, both from the borrowers and from the REA staff. We think it has given us an ability to be more responsive to the needs of the borrowers themselves.

In the telephone program, we have rotated our five area directors. We have done this in order to enhance the continuity and uniformity of the REA telephone program throughout the Nation.

We are putting more and more reliance upon our borrowers and their CPA's. We are accepting their certification of certain financial statements that were previously done by REA staff. This has reduced the workload of the REA audit staff and allows our staff to limit themselves to auditing REA loan funds. It also makes it possible for our auditors to visit each borrower on a more frequent basis.

REA REVOLVING FUND

The REA Revolving Fund has been the subject of a lot of concern and attention in recent times. It is faced with the same problem that the Federal Government has been faced with, that it has been spending more than it has been able to take in.

The rural electric and telephone borrowers have realized this and have brought to the Congress a proposal which they feel is designed to deal with this problem. This administration does not feel that their proposal is the best solution to the problem. For that reason, we have offered criticism, at times, of that proposal.

We feel that, among the alternatives available, reduced insured loan levels, as expressed in our budget proposals, would help to alleviate the drain on the revolving fund.

We also feel that better targeting of the insured loan funds would still allow us to reach out to where the need is really the greatest and to serve that need.

1985 BUDGET PROPOSAL

The 1985 budget proposal is $500 million for insured electric loans. It is a reduction of $350 million, or 41 percent, from this year's level. We feel that this is adequate.

In the electric loan guarantee program, we recommend a $1.2 billion level. This reflects our feeling that it is possible to make even more use of non-Federal funds in the financing of these activities. It also reflects the dramatic drop in incoming applications, those we have on hand and those we anticipate we will receive for the remainder of 1984 and 1985.

In the telephone program, we are asking for $75 million for insured loans, $185 million for Rural Telephone Bank loans, and $125 million in loan guarantee commitments. This is a reduction of 33 percent from the current year. Again, it reflects our knowledge that there is credit available from the private sector which can replace some Federal credit sources.

We are not asking for an appropriation for the purchase of class A stock of the Rural Telephone Bank.

Substantial amounts of private capital are available to supplement REA loans, and this is one of the reasons we are proposing these budget levels.

During this past year, over $1 billion was made available to our electric borrowers through the utilization of earnings from various types of financing mechanisms and from various sources in the private sector.

The reduced REA insured loan levels will help stabilize the revolving fund while assuring that financing is available for those rural electric and telephone systems that really need help. We feel that these proposals also substantially help the President in his pursuit of lower Federal intrusion into the national credit markets.

We had requested a rescission of the $30 million appropriation for class A stock of the Rural Telephone Bank and a rescission of the $197.9 million direct appropriation to the REA revolving fund. These appropriations were contained in the 1984 Continuing Resolution. The time period for consideration of those rescissions expired yesterday. The moneys for both of these purposes became available today. We have been advised officially that that money is available to us, and we are using those funds as instructed.

The 1985 budget also requests $30,340,000 for administrative costs of the agency. This is a $435,000 increase over fiscal year 1984. It covers increases in the general operating expenses of the agency, including the annualization of the January 1984 pay raise. We are also proposing, as a part of our legislative package, that these expenses be funded on a user charge basis. This reflects a policy that is being proposed throughout the Government.

Employment levels in 1985 will be reduced by five staff-years to 660, and we feel that this still leaves us with a staff level that is adequate for our needs. We feel it is a fair budget, and a responsive program. We feel that we are administering the agency in such a way as to be as responsive as possible to meet the needs of our borrowers and, at the same time, exercising our stewardship over the loan funds for which we have responsibility.

We fully support the President's budget, and we ask for your support also.

Mr. Chairman and members of the committee, this is a brief statement. We appreciate the opportunity to be here. We welcome any questions and hope that we can answer them adequately.

Senator COCHRAN. Thank you very much, Mr. Hunter.

Because Senator Andrews has another commitment at 2:30, I am going to defer to him at this point for any questions or comments that he might have.

Senator ANDREWS. Thank you, Mr. Chairman.

APPLICATIONS FOR REA INSURED LOANS

Mr. Administrator, what has been your experience with loan levels for the first 6 months of the fiscal year? Are applications actually down in line with your proposals for reduced loan levels for 1985?

Mr. HUNTER. Not only are applications down, Mr. Andrews, but also the amount of unadvanced funds has been increased during the past few years. Both of these indicate a reduction in activity within the rural utility industry at this time.

Senator ANDREWS. What is the reason for these loan applications to be down? Do you have any thinking on that?

Mr. HUNTER. The decisions to do so are being made by the borrowers. I feel that, in general, this indicates a feeling by borrowers of a need to be more conservative in the stewardship of their systems' financial health. Rising retail rates, now the rule throughout the utility business, make it such that any expenditure or any investment is deeply analyzed and considered much more so now than before. As a result, additions to plants are commonly deferred in an attempt to keep rates from rising even further.

Senator ANDREWS. Part of the reason might not be that you are making these applications so complicated and running them through so many hoops that borrowers are becoming discouraged from making the applications the way they might have a few years ago?

Mr. HUNTER. Senator Andrews, I do not disagree that the loan application process seems to be a long and tedious affair. I do not agree that it is more tedious today than it has been in the past. However, your criticism is well taken in that we should be doing everything we can to streamline our consideration of those loan applications.

MEETING THE NEEDS OF BORROWERS

Senator ANDREWS. Do you feel, Mr. Hunter, that your shop is, shall we say, facilitating the loan application process to those cooperatives who really need to augment their plant to serve their consumers?

Mr. Hunter. I feel that we are restricted from meeting the real need as well as we would like to do.

Senator Andrews. Why?

Mr. Hunter. When you use the word "need," you trigger a thought in my mind about the real need, but I am not sure whether that was where your question was leading us or not.

Senator Andrews. My question was not leading you directly there. I am talking about the co-op that has a potential demand from its customers for more energy. Are you then doing everything you can to facilitate that kind of an application?

Mr. Hunter. We wish that it was possible for us to adjust our ratios and criteria through the administrative process in such a way that we could be more responsive to those borrowers with greater need than having a general, uniform loan program applying to all borrowers. We feel, as you are indicating, that there are some areas and borrowers that need that support from REA to a greater degree than some others do.

I do not feel that there is any ulterior action on the part of our staff to delay meeting the needs of borrowers.

Senator Andrews. In other words, it is your opinion that where the co-op can manifest a need based on its consumers' anticipated electric demand down the pike, you are facilitating those loans?

Mr. Hunter. We are handling those loans on the same basis as all other loans as they come in. Personally, I think that is one of the weaknesses of our program as it is now designed. I think we should have the goal and the opportunity to provide a greater degree of support to those borrowers who have the greater need, based on the cost of their wholesale power or the cost of their operation, perhaps because of lack of density, or all of the other things that enter into a borrower's financial condition.

Senator Andrews. You mentioned the magic word.

Mr. Hunter. I thought you would like that word, sir.

EFFECT OF DENIAL OF RESCISSION PROPOSAL

Senator Andrews. I was hoping that you would bring it up.

Now that the rescission of $197 million from the 1984 appropriation for interest reimbursement has run out, are you going to use that in cash flow? Do you need a CBO?

Mr. Hunter. It will enable us to forgo issuing a CBO that we would otherwise issue, so it will help the REA revolving fund in its cash flow.

DEMAND FOR LOAN FUNDS

Senator Andrews. You show a reduction in your loan level request from $850 to $500 million. Is that based on some type of accurate projections of what the loan demand will be?

Mr. Hunter. It is based on the best projections that we have, sir. It is also based on the idea that we have been discussing, the possibility of targeting those funds more specifically to the more needy borrowers. This would mean reducing some of the assistance that we have been giving across the board to other borrowers who may not need it to as great a degree.

Senator ANDREWS. But do you feel that the first priority for that reduction has been due to the fact that there will be less demand out in the field?

Mr. HUNTER. The reductions are based upon the fact that there is a lesser need out there than there was previously. Also, it is based on an idea that we modify the way we meet that need. Rather than meeting it at the same level for all borrowers across the board, we propose to vary the support according to the varying needs of borrowers.

Senator ANDREWS. And you frankly say that that is the case more than a demand from OMB that you cut out $350 million in loan capital?

Mr. HUNTER. I see this as being a more pertinent justification for our goals.

ROLE OF OMB

Senator ANDREWS. It is the only justification. I am just asking whether it came more from the side of demand on the part of the consumers, or more from the side of the political demand of the Office of Management and Budget?

Mr. HUNTER. Both of those considerations entered into the decision on the appropriate levels.

Senator ANDREWS. I assume that they both entered into it, but the Office of Management and Budget wouldn't know a steer from a heifer, so I am trying to find out if you did it more from the way of the rural electric co-ops or whether it came from the nonseeing, nonfeeling OMB?

Mr. HUNTER. Certainly, we are influenced by OMB. In the discussion of these program levels, we, of course, participated, and we likewise influenced OMB. The levels proposed resulted from a consensus of the various parties, and in consideration of the various factors that impact upon what the need might be.

Senator ANDREWS. A friend of mine from Mississippi and I used to say about 10 years ago, "I wish it came more from the Department of Agriculture and less from OMB."

PENDING LEGISLATION

I have one final question. S. 1300, as you know, is cosponsored by my distinguished chairman, myself, and a number of other Senators. You testified about that the other day, along with Secretary Naylor, and raised all kinds of questions about it. The question that I asked was, "Did you have an alternative to it?" At that time you said no, you did not. Have you developed an alternative to it between that testimony and today, Mr. Administrator?

Mr. HUNTER. That alternative is still under study, and we do not have it ready to provide to you at this time.

Senator ANDREWS. So you really have no other suggestions other than the fact that you don't like what we suggest?

Mr. HUNTER. We do not have an official proposal at this time.

Senator ANDREWS. Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator. We appreciate your being here and helping.

Mr. Administrator, I still remember with pleasure the fact that you made your first public speech in the State of Mississippi after you were brought into the government by this administration.

Mr. HUNTER. Mr. Chairman, there have been many times since then that I thought it was one of the wisest things I have done since I came up here. [Laughter.]

Senator COCHRAN. My colleague over on the House side still refers to it not as OMB, but the Budget Bureau, right? [Laughter.] And with some effectiveness, I think.

REIMBURSEMENT TO REA REVOLVING FUND

I appreciate your bringing up, in your statement, the comments about the reimbursement for interest subsidies and losses which was in the 1984 bill and which was the subject of a rescission. You say that those funds will be used as you were instructed to use them.

Senator Andrews asked you about that and whether or not you would have to sell CBO's. You might not have to sell any, you say, as I recall.

Mr. HUNTER. We anticipate now that we will not have to sell a CBO until September.

Senator COCHRAN. Do you have any calculation about how much this reimbursement may save the government in interest payments? I have been told that earlier transmittal of these funds might have saved the government $6 million in interest. Is that correct?

Mr. HUNTER. I do not have a number that I can give you at this time, Senator Cochran. I will provide you some information on this for the record.

[The information follows:]

APPROPRIATION VERSUS CBO SALE

The direct appropriation of $197,862,000 is actually a substitute for a like amount of CBO sales. However, in both instances, the source of funds is the same. It is the U.S. Treasury. In the case of the CBO sale, the Treasury would eventually receive the money back as well as semiannual payments of interest. In the case of the direct appropriation, the money is lost to Treasury and would either become a permanent part of the Federal debt, or be funded through tax receipts. So any benefit that the REA revolving fund might receive from the appropriation results in an offsetting loss to the U.S. Treasury.

Senator COCHRAN. We notice you hadn't requested any funds for this account in this budget submission. What is the justification for that? What is the thinking that goes into that decision?

Mr. HUNTER. For not asking for the appropriations?

Senator COCHRAN. Reimbursement for interest subsidies and losses.

Mr. HUNTER. We feel that the revolving fund can be operated at a level which is adequate to meet the serious needs of the industry, if we could administratively target that assistance more specifically to the need. If you put those things together, then this program level would meet the need without an appropriation.

Senator COCHRAN. Some argue that this reimbursement does not really differ from other kinds of reimbursement for losses sustained. For instance, we appropriate funds each year to reimburse the Commodity Credit Corporation for net realized losses. We also reimburse Farmers Home Administration revolving funds. Some say these reimbursements are similar.

How does this reimbursement differ in nature from those reimbursements?

Mr. HUNTER. It has a degree of similarity, and if it is the intention of Congress to subject the REA programs to a reimbursable appropriation approach, making it very open and plain as to what the program is really costing, then I am not too sure what position I or the rest of the administration would take.

The apparent basis of the calculation of the appropriation leads us to think that one of the ingredients in it is the interest cost which actually is now being borne by Treasury and has been forgiven to REA. So we question somewhat the method of calculation. The concept of using the appropriation process to cover the interest subsidies is another issue, but not necessarily a controversial issue in our minds.

ELECTRIC RETAIL RATES OF REA BORROWERS

Senator COCHRAN. There is an REA memorandum that we have, which is dated November 1 of last year, indicating that REA borrowers are paying higher rates than comparable other utilities. This increase is apparently part of a trend, and according to the memo, it says, "We do not see a reversal in this negative trend with rate disparity at least for the next few years."

My question is, How much higher are the rates of those 69 percent of REA borrowers, referred to in the memo, in comparison to comparable utility customers?

Mr. HUNTER. Mr. Chairman, if we might, I will provide some data relating to that for the record, but I would also like to comment at this time. It is very obvious that rates being paid by rural cooperative users are increasing, at the present time, faster than they are for consumers of investor-owned utilities.

[The information follows:]

The following data is provided comparing residential rates of REA borrowers with comparable DOE data: 17 percent are not appreciably different; 31 percent are measurably lower; and only 52 percent are measurably higher.

I think one of the major reasons is the fact that the investor-owned utilities had built most of their generating plants some years ago, but the rural electric cooperatives have only gotten into the building of generating plants in a large way during more recent times. As we look at the fact that approximately some 65 to as high as 80 percent of total costs to distribution borrowers is attributed to the purchase of wholesale power, we must recognize that getting into the generating business at a later time has brought more rapidly rising costs to our borrowers because of the much higher costs of construction of those plants in recent years.

REGULATION OF REA BORROWERS

Senator COCHRAN. This has led some to argue that State regulatory agencies ought to be vested with the power to regulate REA rates. Does the administration have a position on that?

Mr. HUNTER. I don't know of an administration position on it. I think there is some strong rationale for the idea that there is already a set of self-regulating aspects of the cooperative concept, in that the member himself is the person being served, but he is also owner of the cooperative.

In the same breath, there may also be good logic in involving the State regulatory agencies as another check and balance on the rates that are costing our users so much.

APPROPRIATION LANGUAGE ON FLOOR AND CEILING

Senator COCHRAN. This year's request includes language that eliminates the floor and ceiling concept on loan authorizations, and establishes a single entry which is significantly lower, we observe, from last year's floor.

It is true—I suppose you will agree with this—that you have been using the floor as the upper limit rather than the lower limit. The floor has been the ceiling, hasn't it, over the last several years?

Mr. HUNTER. This is right. We have seen, in recent years, that the amount of money that we use was the equivalent of the floor.

APPLICATIONS ON HAND IN REA

Senator COCHRAN. We noticed that, in view of the requested amount of authorization which is considerably lower than last year, you say that this is justified because of a lack of demand. Could you submit to us the amount of unapproved applications that you have and how much they amount to? You said there was a decline in the total amount of applications received, less activity in the industry right now. We probably ought to have that for the record if you could supply that for us.

Mr. HUNTER. Senator Cochran, we would be glad to supply that. I believe that it would also be helpful to you if we include the trend in the levels of unadvanced funds from loans that have already been approved.

[The information follows:]

APPLICATIONS ON HAND

As of February 29, 1984, there were 102 applications on hand for insured electric loans and loan guarantees totaling $1,000,117,895. There were 200 applications on hand in the telephone program totaling $936,059,247. Of these, 85 applications totaling $312,786,000 had completed engineering studies.

UNOBLIGATED LOAN AUTHORIZATIONS

Senator COCHRAN. That's right. I was going to ask you for that, if you carried over any unobligated loan authorizations from 1983 to 1984. Do you know whether you did that or not?

Mr. HUNTER. Since I have been Administrator, we have not failed to use at least the minimum level of insured electric loan authority as provided by Congress. What I was referring to, and what we shall clarify for the record, is the increase in the level of loans approved, but for which the actual drawdown of cash has not been needed.

Senator COCHRAN. I would like that, and also the amount that you anticipate carrying over into fiscal year 1985, if there is any anticipation of that.

Mr. HUNTER. We will do that, sir.

[The information follows:]

UNADVANCED LOAN FUNDS

As of February 29, 1984, there were $1,484,666,908 in unadvanced insured electric loan funds. In the telephone program, there were $702,964,724 in unadvanced insured loan funds. In addition, unadvanced loans from the Rural Telephone Bank totaled $522,309,436.

EXPECTED LEVEL OF LOAN GUARANTEES

Senator COCHRAN. What level of loan guarantees do you anticipate will be made for both electric and telephone this year?

Mr. HUNTER. We have an authorized minimum level of $3.235 billion for fiscal year 1984 in the electric program. Frankly, we have some doubt that we will reach that authorized level. We would be glad to provide to you specific numbers as to what we see that total looking like.

[The information follows:]

FISCAL YEARS 1984 AND 1985 EXPECTED LOAN GUARANTEES

Although we have available $3.2 billion for electric loan guarantees in 1984, the level will probably be much less than that, perhaps around $1 billion. We are, of course monitoring the status of loan guarantee applications and will keep this committee informed.

In the telephone program, we have $125 million available for this year. We expect to guarantee $134 million in 1984.

CONCURRENT SUPPLEMENTAL FINANCING RATIOS

Senator COCHRAN. Thank you very much.

There has been some controversy about the supplemental funding ratio whereby you would require a larger portion of the financing needs to be provided by sources other than REA. I notice that you proposed to delete language in our appropriations bill that would retain the current ratios. Why do you want to change those ratios, and what effect do you think that will have on the loan programs?

Mr. HUNTER. We want to change those ratios based on what we see taking place with regard to the financial condition of some borrowers. It is also based on the discussions and apparent intent back in 1973 when the REA revolving fund was established. At that time, it was vividly expressed that it was expected that the borrowers would turn increasingly to non-REA sources for increased amounts of their financing.

It has so happened that even though the maximum ratio of 70 percent REA funds and 30 percent non-REA funds was set in 1972, some 12 years ago, that is still the maximum ratio at which we are permitted to operate the concurrent supplemental loan program.

We feel that this is not accomplishing the intent of the language that accompanied the revolving fund legislation in 1973, nor do we think it meets a natural goal or logical progression that should be pursued. Again, if we were better able to target the use of insured funds by revising our criteria and ratios we could give better support to those areas of critical need and reduce the amount of support that goes to the stronger, less needy REA borrowers. We could then both better accomplish our purpose and do it with a better stewardship of the funds at our disposal.

EFFECTS OF AT&T DIVESTITURE ON REA PROGRAM

Senator COCHRAN. There has been a good deal of speculation about the impact throughout rural America of the divestiture of American Telephone & Telegraph, and we are seeing efforts made here in Congress and in State legislatures around the country to try to help hold down the cost of telephone service. What impact, if any, is that going to have on our REA telephone program?

Mr. HUNTER. It is a little difficult to anticipate right now just what that impact will be, but we see it as being something that is potentially very serious. As one looks at what is taking place, one realizes that a lot of this was going to come about regardless of the divestiture. Divestiture almost became a necessity because of the new era of competition which has come into the industry.

The telecommunications industry is probably one of the most volatile in our whole economy. The unexpected is what is to be expected at the present time. There is great difficulty in getting prepared to deal with those eventualities: the changes in technology, the changes in marketing, the changes in the fact that our borrowers historically have been in a highly regulated utility business with regard to prices and revenues. They had not been accustomed to a competitive climate, and now, almost overnight, they are thrown into a very competitive climate. All of these things make an environment of immense stress, and certainly our borrowers have deep apprehensions of what impact it is going to have on their subscribers. Some revenues from the separation of total toll revenues were used to the benefit of that local user, and because of that, it was a system that was very helpful to our borrowers.

That system is threatened now. It is being jeopardized. Which of the various legislative proposals that you have mentioned might prevail is another question that is to be answered in the future.

The involvement of REA has not been so much in the decisionmaking process as to what ought to happen, but, through its staff, has been a source of information relating to the impact these decisions might have on rural communities—in particular, upon rural residential-type users. Incidentally, I take little credit for that, because most of the REA staff was there before I came. The REA staff has rightfully gained a new visibility, a new recognition in the whole picture of government and nongovernment telecommunications professionals. Our folks have been working with the FCC, with the various departments having some interest in this matter, and certainly, with Congress. They have been a source of information and data which probably can't be obtained anywhere else because of the very nature of our program.

Senator COCHRAN. You testified last year that many telephone companies were turning to REA and the Rural Telephone Bank more than ever to help finance the upgrading of their plants. Did you see the AT&T divestiture and the new stress in the industry, as you described it, as even making more and more of them turn to REA? Will you be getting more and more applications, do you think, as a result of the stress in the industry?

Mr. HUNTER. I would suspect, as a result of that, that applications could well increase to some degree. I also have to indicate that we have continuing visits from people representing various financial institutions and they say to us, "We would like to participate in the financing of rural utilities," both electric and telephone. They see this as a place where they could utilize some of their lending capability. One of the interesting things, however, is that they don't want REA to disappear from the scene. They want REA in as a copartner in that financing. I think that gives them some degree of assurance and security that their loans will be repaid.

AVAILABILITY OF PRIVATE FINANCING

I do not think that we are utilizing the private sector financing sources to the degree that we might in the telephone industry. The uneasiness there is a little different than it is in the electric distribution industry. Certainly, the uncertainty doesn't have to be elaborated on as far as the electric generating business, because it is under tremendous stress at the present time.

Senator COCHRAN. I have a few more questions which I think I will defer for the time being and recognize the distinguished Senator from South Dakota who is here. I am sure he has some questions of you, Mr. Hunter.

Senator ABDNOR. You are very kind, Mr. Chairman. Welcome, Mr. Hunter.

Mr. HUNTER. Thank you, Senator.

STATEMENT ON S. 1300

Senator ABDNOR. I realize you have worked in the rural electrification area for a number of years, Mr. Hunter, and have your own ideas on S. 1300. I, too, have thoughts about S. 1300 and would like a statement expressing my views submitted for the record.

Senator COCHRAN. Without objection, it will be included in the record.

Senator ABDNOR. Thank you.

Inasmuch as I am one of the cosponsors, I thought it would be appropriate to put in something in defense of S. 1300.

Senator COCHRAN. Mr. Hunter doesn't want to hear it anyway. [Laughter.]

Mr. HUNTER. Senator Abdnor, I promise you that I will read it. [Laughter.]

Senator ABDNOR. I'm sure it will be just what is necessary to swing you around to my way of thinking.

[The statement follows:]

STATEMENT OF SENATOR ABDNOR

In 1973, the Rural Electrification Revolving Fund was created as a self-sustaining source of loans that would be replenished through repayments.

This revolving fund functioned quite well for a number of years until the demand for loans became greater than interest payments. When interest rates skyrocketed, REA found itself borrowing from the Treasury at 11 percent and lending it to cooperatives at 5 percent. As my farmers might put it, "It didn't take long before the fund began eating its seed corn."

Estimates I've seen indicate that unless the fund is refinanced, it will go bankrupt around the year 2002. If that happens, rural electric cooperatives would have to borrow from the commercial markets with the likely result being an enormous increase in rural electric bills. Some people talk of bills going to several hundred dollars a month.

I cosponsored S. 1300 to keep this from happening. That bill would allow rural electric cooperatives to repay into the revolving fund the $7.9 billion which was loaned to cooperatives by the Treasury. Along with a slight increase in the interest rate, this should keep the fund solvent and insure the continued financial integrity of the revolving fund.

But, when S. 1300 is mentioned, it seems we hear a lot from the administration about how much it will cost. Now don't get me wrong—I don't take a backseat to anyone in trying to control spending. But it seems there are those in the administration who forget that the big power companies refused to serve rural America. They overlook the fact that rural electric bills already average 12 percent more than the bills of urban consumers. They don't care to consider that many rural electric systems in my State of South Dakota provide electric service in areas with fewer than 1 customer per mile of line, compared with 35 customers per mile that commercial companies average. They don't realize that interest costs already make up approximately 34 percent of rural electric bills in South Dakota.

We had all better consider the costs involved in a refinancing of the revolving fund, but it is my hope we would also consider the costs involved in making rural power so expensive that it becomes prohibitive.

NRECA STATEMENT CONCERNING SECRETARY BLOCK

Senator ABDNOR. I would like to ask you about something which bothers me greatly. I have been hearing stories, and I think it has been on the news, quoting Mr. Bergland, who is now executive vice president of NRECA. I believe he is quoted as saying that, when Secretary Block was in South Dakota this past weekend, Secretary Block said the rural electric program is no longer needed and should be split up.

I just can't believe that the Secretary would say that. It was certainly shocking. Do you know anything about Secretary Block's statement?

Mr. Hunter. Senator Abdnor, I heard within the last few hours that that statement had been made, and I was shaken by it, because I, like you, could not imagine that Secretary Block would have made a statement like that. It does not reflect in any way the expressions that I have heard from him personally and that I have publicly heard him make. Mr. Bergland's statement was relayed to me by a member of the press. He called me and discussed with me the fact that this statement had been made and wanted to know what my reaction to it was.

I was so amazed by it that I did not feel it could be a true statement. I have checked with the Secretary's office, and, although I was not able to talk to him personally, I have been assured by those who did talk to him today that he did not make that type of a statement. I am equally amazed that Mr. Bergland would make such a statement in a press release distributed by NRECA, without having checked the accuracy of such a statement. I called Mr. Bergland, but he was not available. I am concerned about NRECA's statement, because it indicates a continuation of the innuendos and half-truths that I have been subjected to in the last year or so. I have not felt that I should respond to them, because I did not want to get into saying who is a liar and who is telling the truth. However, when a member of the Cabinet is quoted in a statement such as this, it gets beyond the point of innuendo. It is a serious allegation, and I am certain in my own mind that it is not a true statement. It does not reflect the position of Secretary Block, and I am concerned that we see here another example of that same half-truth and innuendo approach that has been used very effectively against me in the last year or so through the press.

As I say, I have hesitated to personally respond to what has been said about me in the past. This, however, is being used in a political way against a Cabinet member for whom I have the greatest personal respect. Therefore, I cannot fail to respond to you in the way I have.

Senator Abdnor. I am happy to hear it, because I would have been extremely disappointed if the Secretary had made that statement. It shows you how these kinds of things get started. If it isn't true, for heaven's sake, it should be stopped immediately, rather than let that kind of a rumor get around. I know how damaging these kinds of things can be.

Mr. Hunter. I agree absolutely, and I even went to the point of asking the reporter who called me about it to play me the tape of Mr. Bergland's voice itself over the telephone.

Senator Cochran. Maybe we can subpoena Mr. Bergland. We have opportunities to hear from outside witnesses in these budget processes. We might ask him to come testify.

ADMINISTRATION'S POSITION ON S. 1300

Senator Abdnor. As I stated earlier, I am a strong supporter of S. 1300. You aren't, and would like to see some changes. I didn't hear all your reasons, but I am alarmed, because I have been informed that if you would make the changes in S. 1300 you desire, rural patrons' electric bills could increase by up to $100 a month. Is this true?

Mr. Hunter. I feel that the responsibility of this agency is to the user at the end of the line. Naturally, we want the borrower to be successful in order to be a good servant for those users at the end of the line. Therefore, we must, as you suggest, measure our positions and measure our programs as to what impact they have on that user at the end of the line, and if there ever was a time he needed help, it is now, because agriculture and farming is in trouble.

So, we have taken exception, particularly to the method of determining the interest rate that would result from S. 1300, and although that interest rate would be an improvement from the 5 percent that we are tied to at the present time, it would only raise it initially to about 6 percent. As we follow the projections on through, we do not see that interest rate being raised to the level that would actually make the revolving fund selfsufficient.

We see other things being written into the bill to compensate for the fact that there would continually be a shortfall in that interest rate.

ANALYSIS OF INTEREST COSTS TO RETAIL RATES

I thought it important that we try to analyze what that would do to the user at the end of the line, what it would do to his rates. Our computation, as it relates to the average rural residential consumer is that, for each percentage point you increase that interest rate on revolving fund loans, you raise his bill by about a half a penny a day.

If, instead of raising that interest rate only 1 percentage point, you raise it 4 percentage points, the result is 4 times a half a penny per day, which is two pennies a day. Two pennies a day for 30 days, equals an increase in the average residential monthly bill of 60 cents.

Admittedly, this deals with that average user, and there are some that use less, and there are some that use more. But we are talking about the average residential user.

Senator Abdnor. Each percent of interest rate that has to be repaid only affects the average, the lucky REA user, by half a cent a day?

Mr. Hunter. Half a penny a day would cover a percentage point increase in the interest rate for that average residential rural user.

Senator Abdnor. What if somebody had a $40 or $50 bill?

Mr. Hunter. Percentagewise, it would hit him greater.

Senator Abdnor. OK.

CONVERSION OF THE RURAL TELEPHONE BANK TO PRIVATE CONTROL

Senator Cochran. Let me ask you this. Your explanatory notes mentioned that the Rural Telephone Bank conversion to private ownership, control, and operation may be anticipated. Could you explain what that means?

Mr. Hunter. Mr. Chairman, what we are doing is actually reciting the language of the authority that created the Rural Telephone Bank. This is one of the intentions of the act—that is, that one day the Telephone Bank might reach such a degree of independence that it could go private.

CAPITALIZATION OF THE RURAL TELEPHONE BANK

Senator COCHRAN. For fiscal year 1984, Congress approved $30 million for additional capitalization of the Rural Telephone Bank. In view of the fact that additional capitalization will allow more borrowers to receive financing, thereby reducing dependence on lower interest rate revolving fund loans, why did you propose a rescission of that $30 million?

Mr. HUNTER. One of the major reasons is that we already have $360 million of capitalization in the Rural Telephone Bank, and that capitalization is not being utilized to its fullest degree of leverage. Certainly not to the degree of leverage that most banks do, and not to the degree of leverage that is authorized in the act, which is a 20 to 1 leverage.

So the capacity of the bank is now underused.

FFB INTEREST RATES

Senator COCHRAN. There have been suggestions that the Federal Financing Bank had been paid $20 million annually by rural electric borrowers to cover administrative costs that actually were not incurred. What is your reaction to that?

Mr. HUNTER. REA borrowers use, by their choice, the Federal Financing Bank as a source of their borrowing under an REA guarantee. The cost of their interest is the result of negotiations between Treasury and the REA borrowers.

As far as the total amount of moneys, I would not be able to either concur or disagree, but the use of the FFB, of course, is optional upon the part of our borrowers.

SUBMITTED QUESTIONS

Senator COCHRAN. Mr. Hunter, we appreciate so much your being here today and cooperating with the subcommittee, and bringing Mr. Scanlon with you. We have some other questions that we need to have answered for the record. I will just submit those additional questions to you and ask for your response to those in writing.

Mr. HUNTER. Mr. Chairman, we will be glad, of course, to concur with your desire for any information that you might need. We thank you for the opportunity to come here and discuss with you a program that we think is a great program. We think it ought to last for many, many years. We think that its utilization should be adjusted to better meet the needs within the industry, and also to be comparable and fitting with the desires of this administration in bringing about an expansion of the economic recovery that has already been started.

Thank you very much.

Senator COCHRAN. Thank you, Mr. Hunter.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

Integrity of Revolving Fund

There has been considerable questioning of the stability and integrity of the Revolving Fund under REA. As you know, the House passed a bill recently which contained several measures designed to ensure stability for the fund. The most prominent provision of the bill would forgive the $7.9 billion loan to REA from the Treasury, which is now scheduled to be repaid starting in 1993. Other provisions would allow variable interest rates on REA loans, and would make it easier for coops to secure financing from other sources.

Question: Could you discuss the Administration's position on the forgiveness of the Treasury loan?

Answer: The $7.9 billion borrowed by REA from Treasury begins to become due in 1993, so there is no real impact on the financial health of the REA revolving fund until that time. We feel that there are other ways to solve the revolving fund's problems which would provide for long-term stability of the fund, including allowing it to pay the $7.9 billion back to Treasury. If Treasury does not receive these funds back, then the $7.9 billion either becomes a permanent part of the national debt or else is funded through tax receipts.

Question: How do you feel about the variable interest rates?

Answer: As a concept, variable interest rates are a rational approach to administering the RETRF, since they will tend to vary according to general market conditions and the general health of the REA revolving fund. Our problems with the proposed legislation focus on the methodology used to set those variable rates, since that particular methodology fails to provide adequate assurance of the long-term solvency of the REA revolving fund.

Question:. Will your proposed reduction in insured loans help to restore stability to the fund?

Answer: Reductions in insured loans definitely prolong solvency of the Fund, but cannot assure permanent Fund solvency unless coupled with other changes, such as increased interest rates on loans from the fund.

Question: How?

Answer: Reduced insured loan levels benefit the solvency of the Fund by reducing sales of Certificates of Beneficial Ownership, thus easing the pressure on the Fund which interest on these CBO's causes.

Question: If insured loan levels in future fiscal years were limited to $575 million (the current request), how far into the future could the fund operate before becoming unbalanced, with interest expense exceeding interest income.

Answer: To our knowledge, no government or private organizations have attempted to survey rural areas to determine exactly how many rural families are without telephone service.

Question: What will be the impact on these Americans if your budget proposals go into effect?

Answer: The proposed budget will enable us to finance the essential needs of telephone borrowers. In considering loan applications, priority is given to those applications where the primary purpose is to provide service to unserved families.

Question: What evidence do you have to show that private lenders are willing to make loans to telephone borrowers at affordable rates?

Answer: Over the years, a number of financial institutions have indicated their willingness to provide financing to the rural telephone industry. Two of the most recent ones are the Banks for Cooperatives and the Irving Trust Company. The interest rates charged by these institutions are, of course, prevailing market rates.

Question: We note that in your statement, you encourage telephone borrowers to establish separate subsidiaries to facilitate financing from other private sources. According to what I've been told, your proposed rules on "General Funds (Telephone Program)," published last June in the Federal Register, do not help telephone borrowers who cannot pay sufficient dividends or capital credits, without prior REA approval, to provide such a subsidiary with enough equity capital to attract that debt financing needed to complete the project.

Could you summarize these proposed rules for us?

Answer: Basically, our proposed rule will enable borrowers who wish to invest funds in telecommunication projects which REA cannot finance, to request exclusion of such investments from the calculation of their appropriate general fund level, up to the amount borrower can declare in dividends or retire in capital credits. Our regulations on the payment of dividends or capital credits are recognized as being far more liberal than those of commercial lending institutions.

Question: Why is there a need to establish separate subsidiaries?

Answer: There is no requirement for establishing a subsidiary by a borrower but we do recommend this approach if the borrower has the legal authority to do so. The reason for this recommendation is that the subsidiary can seek commericial financing for the project and no lien accommodation is required from REA.

Question: What has been the response to these proposed rules?

Answer: Under current interest rates and current law, if insured electric and telephone loans were held to $575 million into the future, it would delay the point at which interest expense exceeds interest income by about 12 years, until almost the year 2000. So we still need some remedy in the form of making interest rates on loans from the fund more realistic, that is, more comparable to the cost of monies to the fund.

Question: Wouldn't reimbursement for losses help to restore stability?

Answer: Reimbursement for interest subsidies and losses would delay the point at which total interest expense exceed total interest income, and could conceivably be used as the sole mechanism for assuring revolving fund solvency, even at the existing 5% interest rate. However, such an approach would require substantial annual appropriations.

REA Borrower Delinquencies

According to your budget justifications, you show a very favorable delinquency rate. You mention that there is one delinquent electric borrower and two delinquent telephone borrowers.

Question: Are those the only delinquencies you have, or are those just examples of delinquent borrowers?

Answer: Senator Cochran, at the end of September 1983, there was, as you say, one electric borrower and two telephone borrowers who were delinquent. These deliquencies totalled over $1.3 million.

As of the end of December, however, there are no electric borrowers delinquent. There is still one telephone borrower delinquent. The delinquency totals less than $20,000.

Question: To what do you attribute your success in keeping borrowers current in their payments?

Answer: The great repayment record of REA electric and telephone borrowers reflects more the immense pride of the borrowers in the REA program than any particular collection procedure utilized by REA. Simply put, we send the borrowers a monthly bill, and they send in their payment. One of the great strengths of this program is this pride, this desire to pay what is due and when it is due.

We, of course, do work with the borrowers when needed to help keep that repayment record what it is.

Telephone program

Question: What percent of the people in rural areas of this country have no telephone service?

Answer: Two trade associations, the National Telephone Cooperative Association and the National REA Telephone Associations felt that the proposed rule did not go far enough and, essentially, did not want any constraints on what REA borrowers could invest in other projects. Another trade association, however, severely critized REA for proposing this rule. The National Cable Television Association stated that the rule constituted "back door" financing by REA of CATV systems and facilities. The RE Act specifically prohibits REA from financing community antenna television systems.

Question: When are they to go into effect?

Answer: The REA staff is presently working on a final proposed rule.

Question: I'm told that two telephone associations raised legal questions concerning your proposed general funds rule last August 23. Have you looked into these questions? What is your response to those questions?

Answer: REA is studying the questions raised by the two telephone associations but has not responded to those questions at the present time.

Rural Telephone Bank (RTB)

Question: What is the current balance of RTB's borrowing authority?

Answer: The balance of borrowing authority of the Rural Telephone Bank on October 1, 1983, the beginning of this Fiscal Year was $9,332.4 million.

Question: How does that compare with this time last year?

Answer: At the same time last year the balance was $8,543.5 million.

Question: I noticed that you do not request funds for capitalization of the RTB. You justify that by stating that you have borrowing authority up to 20 times the amount of capitalization. Isn't it true that loans made from borrowed funds would require a higher interest rate than those made from RTB capital?

Answer: Loans are not made from specific funds but rather from the mix of all funds available to the Rural Telephone Bank. The interest rate charged the borrowers is the cost of money to the Bank. Depending on the loan program level, the direct appropriation of $30.0 million at 2 percent could have the effect of buying down the interest rate the Bank charges its borrowers by 1.0 to 1.5 percentage points. The current Bank rate is 10.0 percent.

FY 1984 Rescission

Question: For FY 1984, Congress approved $30 million for additional capitalization (stock purchases mentioned above) of the Rural Telephone Bank (RTB). In view of the fact that additional capitalization would allow more borrowers to receive financing from RTB, thereby reducing dependence on lower interest rate Revolving Fund loans (which is what you desire), why did you propose a rescission of that $30 million?

Answer: We proposed a rescission for the $30.0 million authorization during 1984 for Class A Stock since these funds are not needed. The Bank has virtually unlimited authority to borrow from the Treasury. The unused borrowing authority of the Bank at October 1, 1983 was $9,332.4 million.

General

Question: How much demand has there been for publications translated into foreign languages?

Answer: There has been only one specific request for the translation of an REA publication into a foreign language.

Question: What kinds of groups request these publications?

Answer: The request came from a supplier of Southern Yellow Pine poles who indicated that a translation of REA Bulletin 50-18, REA Specification for Wood Poles, Stubs, and Anchor Logs, would help develop the international market for American wood products. This particular REA Bulletin has recently been translated into French, Spanish, and Arabic.

Question: I understand that you plan to sponsor legislation that would set interest rates from the Revolving Fund at the cost of Treasury borrowing. I also understand that not all money that is re-lent from the Revolving Fund is borrowed from Treasury because some is lent from income from principal and interest payments from borrowers. Is there some way you could provide for discretionary rates based on how many loans can be made from the amount of Treasury borrowings and how many could be made from income from normal operations?

Answer: The projected cash flow for the REA revolving fund under the Administration's possible legislative proposal would accommodate a "discretionary" loan program fully adequate to meet borrower needs. This ability would not require any analysis of the source of program monies (CBO sales versus borrower repayments) but would instead be the product of a standard interest rate equal to the government's own cost of borrowing and thus substantially lower than the borrowers would be able to obtain elsewhere which would guarantee fund solvency and total self-sufficiency.

Nuclear plant involvement

Question: Please summarize REA involvement in nuclear plan construction. For the record, please list plants you now have investments in, their original estimates of REA's commitment, how much they have cost REA to date, and how much more you expect them to cost REA.

Answer: Through January 1, 1984, REA has made loans and loan guarantees for nuclear generating facilities totalling $10.5 billion.

This money provides for 26 units with a total capacity of 26,290 megawatts. The REA borrowers share of this totals 4,268 megawatts. All of these except for one small unit are projects where REA borrowers participate with other electric utilities.

The following table shows REA borrower involvement in nuclear generating facilities, including the original estimate of cost, the cost to date, and, under the remarks column, expected future costs.

NUCLEAR GENERATING UNITS IN OPERATION

REA COOPERATIVE NAME & LOCATION	NUCLEAR UNIT NAME & LOCATION	CONSTRUCTION		TOTAL CAPACITY (MW)	COOPERATIVE'S SHARE		COMMERCIAL OPERATION DATE	REA LOAN OR LOAN GUARANTEE (X$1,000) a/	
		PERMIT DATE	PERCENT COMPLETE		%	MW		Original	Total
FLORIDA 41 Seminole Electric Co-op Tampa, FL	Crystal River 3 Red Level, FL	9/25/68	100	825	1.7	14	1977	9,000	8,931
GEORGIA 109 Oglethorpe Power Corporation Decatur, GA	Hatch 1	9/30/69	100	786	30	235.8	1975	336,405	374,797
	Hatch 2	12/27/72	100	786	30	235.8	1979		
IOWA 83 b/ Central Iowa Power Co-op Marion, Iowa	Duane Arnold Palo, IA	6/22/70	100	550	20	110	1975	17,607	71,953

a/ These figures do not include amounts for transmission.
b/ Original loan based on 10% share. Funded for improvement: $35,000,000.

NUCLEAR GENERATING UNITS IN OPERATION (continued)

REA COOPERATIVE NAME & LOCATION	NUCLEAR UNIT NAME & LOCATION	CONSTRUCTION		TOTAL CAPACITY (MW)	COOPERATIVE'S SHARE		COMMERCIAL OPERATION DATE	REA LOAN OR LOAN GUARANTEE (X$1,000) a/	
		PERMIT DATE	PERCENT COMPLETE		%	MW		Original	Total
IOWA 84 c/ Corn Belt Power Co-op Humboldt, IA	Duane Arnold Palo, IA	6/22/70	100	550 d/	10	55	1975	17,607	43,553
MAINE 12 Eastern Maine Electric Co-op Calais, ME	Maine Yankee Wiscasset, ME	10/21/68	100	800	0.3	2.4	1972	225	225
PENNSYLVANIA 27 Alleghany Electric Co-op Harrisburg, PA	Susquehanna 1 Berwick, PA	11/2/73	100	1050	10	105	6-8/1983	e/	

c/ Funds for improvements: $11,000,000.
d/ Denotes unit listed previously and capacity (MW) already included.
e/ Funds not included for Pennsylvania 27. Loan and advances for Susquehanna 1 included in chart on Nuclear Generating Units under construction.

NUCLEAR GENERATING UNITS IN OPERATION (continued)

REA COOPERATIVE NAME & LOCATION	NUCLEAR UNIT NAME & LOCATION	CONSTRUCTION		TOTAL CAPACITY (MW)	COOPERATIVE'S SHARE		COMMERCIAL OPERATION DATE	REA LOAN OR LOAN GUARANTEE (X$1,000) a/	
		PERMIT DATE	PERCENT COMPLETE		%	MW		Original	Total
VERMONT 12 Vermont Electric G&T Co-op Johnson, VT	Vermont Yankee Vernon, VT	12/11/67	100	540	1.03	5.56	1972	639	639
VERMONT 8 Washington Electric Co-op East Montpelier, VT	Vermont Yankee Vernon, VT	12/11/67	100	540 d/	0.59	3.21	1972	368	258
VIRGINIA 52 Old Dominion Electric Co-op Glen Allen, VA	North Anna Mineral, VA Units 1&2	2/19/71	100	865	11.6	100	1978	263,000	263,000
		2/19/71	100	890	11.6	103	1980		
WISCONSIN 64 Dairyland Power Co-op La Crosse, WI	Genoa 2 Genoa, WI	3/29/63	100	50	100	50	1969	6,660	8,851

NUCLEAR GENERATING UNITS UNDER CONSTRUCTION

REA COOPERATIVE NAME & LOCATION	NUCLEAR UNIT NAME & LOCATION	CONSTRUCTION		TOTAL CAPACITY (MW)	COOPERATIVE'S SHARE		COMMERCIAL OPERATION DATE	REA LOAN OR LOAN GUARANTEE (X$1,000) a/	
		PERMIT DATE	PERCENT COMPLETE		%	MW		Original	Total
GEORGIA 109 Oglethorpe Power Co-op Decatur, GA	Vogtle 1 Waynesboro, GA	6/28/74	65	1150	30	345	1987	822,606	2,394,704
	Vogtle 2 Waynesboro, GA	6/28/74	22	1150	30	345	1988		
ILLINOIS 51 b/ Western Illinois Power Co-op Jacksonville, IL	Clinton 1 Clinton, IL	2/24/76	85	950	9.5	90	1986	103,204	286,898
ILLINOIS 53 b/ Soyland Power Co-op Decatur, IL	Clinton 1 Clinton, IL	2/24/76	85	950 c/	10.5	100	1986	114,067	328,014

a/ These figures do not include amounts for transmission.

b/ Additional funds need to complete construction - Estimate $280,000,000. Cap on cooperatives construction responsibility being negotiated.

c/ Denotes unit listed previously and capacity (MW) already included.

NUCLEAR GENERATING UNITS UNDER CONSTRUCTION (continued)

REA COOPERATIVE NAME & LOCATION	NUCLEAR UNIT NAME & LOCATION	CONSTRUCTION		TOTAL CAPACITY (MW)	COOPERATIVE'S SHARE		COMMERCIAL OPERATION DATE	REA LOAN OR LOAN GUARANTEE (X$1,000) a/	
		PERMIT DATE	PERCENT COMPLETE		%	MW		Original	Total
INDIANA 107 d/ Wabash Valley Power Assoc. Indianapolis, IN	Marble Hill 1 Jefferson County, IN	4/4/78	55	1130	17	192	1986	360,684	949,584
	Marble Hill 2 Jefferson County, IN	4/4/78	35	1130	17	192	1988		
KANSAS 54 Kansas Electric Power Co-op, Inc. Topeka, KS	Wolf Creek 1 Burlington, KS	5/17/77	92	1150	6	69	1985	200,000	230,000
LOUISANA 30 Cajun Electric Power Co-op, Inc. New Roads, LA	River Bend 1 St. Francisville, LA	3/25/77	78	934	30	280	1985	751,708	1,396,708

d/ Construction has been terminated by Company. WVPA studying its alternatives.

NUCLEAR GENERATING UNITS UNDER CONSTRUCTION (continued)

REA COOPERATIVE NAME & LOCATION	NUCLEAR UNIT NAME & LOCATION	CONSTRUCTION		TOTAL CAPACITY (MW)	COOPERATIVE'S SHARE		COMMERCIAL OPERATION DATE	REA LOAN OR LOAN GUARANTEE (X$1,000) a/	
		PERMIT DATE	PERCENT COMPLETE		%	MW		Original	Total
MICHIGAN 46 e/ Wolverine Power Supply Co-op Boyne City, MI	Enrico Fermi 2 Newport, MI	9/26/72	94	1100	20	220	1985	219,118	619,722
MISSISSIPPI 53 South Mississippi Electric Power Association Hattiesburg, MS	Grand Gulf 1 Port Gibson, MS	9/4/74	99	1250	10	125	1984	400,000	527,000
	Grand Gulf 2 Port Gibson, MS	9/4/74	22	1250	10	125	Unknown		
NEW HAMPSHIRE 4 f/ New Hampshire Electric Co-op Plymouth, NH	Seabrook 1 Seabrook, NH	7/7/76	80	1150	2.17	25	1986	75,000	186,750
	Seabrook 2 Seabrook, NH	7/7/76	23	1150	2.17	25	1990		

e/ Including recent loan guarantee approved 3/5/84 $170,000,000, cap negotiated based on 12/83 construction costs estimated ownership 18.5%.

f/ Company has announced possible cancellation of Unit 2.

NUCLEAR GENERATING UNITS UNDER CONSTRUCTION (continued)

REA COOPERATIVE NAME & LOCATION	NUCLEAR UNIT NAME & LOCATION	CONSTRUCTION		TOTAL CAPACITY (MW)	COOPERATIVE'S SHARE		COMMERCIAL OPERATION DATE	REA LOAN OR LOAN GUARANTEE (X$1,000) a/	
		PERMIT DATE	PERCENT COMPLETE		%	MW		Original	Total
NORTH CAROLINA 67 g/ North Carolina Electric Membership Corporation Raleigh, NC	Catawba 1 Clover, SC	8/7/75	99	1145	56.25	644	1985	936,000	1,512,725
PENNSYLVANIA 27 Allegheny Electric Co-op Harrisburg, PA	Susquehanna 2 Berwick, PA	11/2/73	99	1050	10	105	1985	216,206	578,398
SOUTH CAROLINA 51 h/ Saluda River Electric Co-op Laurens, SC	Catawba 1 Clover, SC	8/7/75	99	1145 c/	18.75	215	1985	312,000	509,000

g/ Cost based on 28.125% of Units 1 & 2
h/ Cost based on 9.375% of Units 1 & 2

NUCLEAR GENERATING UNITS UNDER CONSTRUCTION (continued)

REA COOPERATIVE NAME & LOCATION	NUCLEAR UNIT NAME & LOCATION	CONSTRUCTION		TOTAL CAPACITY (MW)	COOPERATIVE'S SHARE		COMMERCIAL OPERATION DATE	REA LOAN OR LOAN GUARANTEE (X$1,000) a/	
		PERMIT DATE	PERCENT COMPLETE		%	MW		Original	Total
TEXAS 121 Brazos Electric Power Co-op Waco, TX	Comanche Peak 1 Glen Rose, TX	12/19/74	97	1150	3.8	43.5	1984	96,136	191,636
	Comanche Peak 2 Glen Rose, TX	12/19/74	63	1150	3.8	43.5	1986		
TEXAS 157 1/ Tex-La Electric Co-op of Texas, Inc. San Augustine, TX	Comanche Peak 1 Glen Rose, TX	12/19/74	97	1150 c/	2.17	25	1984	177,500	177,500
	Comanche Peak 2 Glen Rose, TX	12/19/74	63	1150 c/	2.17	25	1986		

1/ The $177.5 million was initally for 4 1/3% interest. Cooperative reduced its ownership to 2 1/6%. To date only $118.5 million has been released for Comanche Peak.

NUCLEAR GENERATING UNITS UNDER CONSTRUCTION (continued)

REA COOPERATIVE NAME & LOCATION	NUCLEAR UNIT NAME & LOCATION	CONSTRUCTION		TOTAL CAPACITY (MW)	COOPERATIVE'S SHARE		COMMERCIAL OPERATION DATE	REA LOAN OR LOAN GUARANTEE (X$1,000) a/	
		PERMIT DATE	PERCENT COMPLETE		%	MW		Original	Total
VERMONT 12 j/ Vermont Electric G&T Co-op, Inc. Johnson, VT	Seabrook 1 Seabrook, NH	7/7/76	80	1150 c/	.4126	4.75	1986	4,233	32,344
	Seabrook 2 Seabrook, NH	7/7/76	23	1150 c/	.4126	4.75	1990		
	Millstone 3 Waterford, CT	8/9/74	68	1159	.35	4	1986	2,080	13,259

j/ Company has announced possible cancellation of Seabrook Unit 2. Cooperative increased its share Seabrook 1 & 2 and Millstone 3 after original loan.

Rural Communication Development Fund

In 1981, the Administration determined that sufficient capital was available from private investors for community antenna television facilities, and that the activity could be more appropriately financed by the private sector. The last loan approved or guaranteed under this account was in 1981.

Question: Have there been any requests for loans from this fund since 1981?

Answer: There have been inquiries about our authority to provide this financing and those inquiring have been advised that currently there is no funding for community antenna television facilities.

Question: Are you aware of any community without this service because they could not get a loan from REA?

Answer: There is no way that this could be ascertained. We do know that communities are being provided this service with commercial financing.

FEDERAL CROP INSURANCE CORPORATION

STATEMENT OF MERRITT W. SPRAGUE, MANAGER

ACCOMPANIED BY:

EDWARD D. HEWS, DEPUTY MANAGER, FEDERAL CROP INSURANCE CORPORATION

ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

INTRODUCTION OF WITNESSES

Senator COCHRAN. Our other agency before the committee today is the Federal Crop Insurance Corporation. I mentioned earlier that we had here with us Merritt Sprague, Manager of the Federal Crop Insurance Corporation. He is accompanied by Edward Hews, Deputy Manager of the Federal Crop Insurance Corporation.

Mr. Sprague, we appreciate your being here and your patience in listening to our conversation with REA witnesses.

PREPARED STATEMENT

We have your statement. We will make it a part of the record in full and ask you to make any summary comments that you would like to at this point.

[The statement of Mr. Sprague and a biographical sketch for Mr. Hews follow:]

STATEMENT OF MERRITT W. SPRAGUE

It is a pleasure for me to appear here to present the 1985 Budget for the Federal Crop Insurance Corporation.

Our budget request for fiscal year 1985 is as follows:

$227,234,000 for Administrative and Operating Expenses to fund the expanded crop insurance program. By activity, about $88 million of this amount will be required for reinsured companies, $123 million for agency sales and service agreements and loss adjustment functions, and $16 million for underwriting, actuarial, and program development.

$141,000,000 for premium subsidy for the 1984 crop year. This amount represents 30 percent of the expected premium, up to the 65 percent level of coverage, as authorized by the Federal Crop Insurance Act of 1980.

This represents a total budget request for fiscal year 1985 of $368,234,000 for on-going programs. The total for fiscal year 1985 is $58,234,000 more than the total for 1984 appropriations for on-going programs.

The Corporation is also requesting a supplemental appropriation in fiscal year 1984 for emergency Treasury borrowing. The drought of 1983 greatly contributed to the record level of indemnities paid by the Corporation. Current projections indicate that cash flow problems could slow the payment of indemnities this spring if the supplemental were not provided. The requested supplemental would permit the Corporation to borrow funds from Treasury if at any time the resources of the revolving become insufficient to meet its commitments.

Before going into the justification for our budget request, I would like to review our accomplishments, and discuss our current plans and projections.

Crop Year 1983 Experience

Federal Crop Insurance is intended to become the primary form of federal disaster protection for farmers, and eventually replace the many overlapping farm disaster programs. Since enactment of the new legislation in 1980, insurance has expanded from 1,676 counties to 3,000 currently. County programs have increased over 300 percent, from 4,629 in crop year 1980 to 15,415 in crop year 1983. Thus, crop insurance is now available in all agricultural counties on the acreage previously covered by disaster payments.

Acres insured and insurance in force have also increased substantially. In crop year 1980, acres insured were 26.6 million compared with 29.8 million for the 1983 crop year. Insurance in force has also increased for the same period, from $3 billion in 1980 to $4.6 billion in 1983.

The current estimates of crop year 1983 experience for the combined efforts of the public and private sector show total premium amounting to about $295 million, and total indemnities of about $620 million, for a combined loss ratio of 2.10.

Premium for the government share of the crop year 1983 insurance operations is estimated at about $188 million, and indemnities at $438.4 million, for a loss ratio of 2.33. The remaining premium of $107 million was handled by reinsured companies. The indemnities of reinsured companies are estimated at $181.5 million, which results in a loss ratio of 1.70.

There have been several program and administrative changes for crop year 1983 made by the Corporation which should improve the crop insurance program.

> Major improvements in the timeliness of document processing have been made in the past year. For example, in 1982 approximately 45 percent of claims were processed within 30 days and 59 percent within 60 days. Thus far in 1983, 67 percent have been processeed within 30 days of signature by the producer, and 91 percent within 60 days.
>
> Private sector involvement was expanded to include 44 active reinsured company agreements and 57 master marketing agreements.
>
> A reinsurance agreement was signed with a private insurance company to provide crop insurance in Puerto Rico.
>
> A plan was approved to permit private companies to develop new specialty crop programs under detailed guidelines. Cranberries will be the first program developed.
>
> The 1983 FCIC/ASCS Memorandum of Understanding brought about a much greater involvement and cooperative effort to gather FCIC data, make information available to farmers, assist in acreage determinations and most recently allowed for shared office space and clerical support for FCIC district directors.
>
> A new agreement with ASCS was executed to reimburse ASCS for county level computer support to study potential automation benefits for FCIC.

All sales agents and loss adjusters were provided training and were required to successfully complete a certification examination.

An All-Risk Crop Insurance Evaluation (ARCIE) computer software package was developed and instituted in conjunction with Texas A & M University. The ARCIE is designed for use by producers in evaluating crop insurance as a risk management strategy.

Improvements were made in the hail-fire opt out formula used to calculate FCIC claims when losses are paid under a private crop hail policy.

As an incentive for producers who participated in the Payment-in-Kind program, yield guarantees were increased with no increase in premium.

Crop Year 1984 Projections

The fiscal year 1984 appropriations have permitted the Corporation to continue to expand the availability of Federal Crop Insurance. In crop year 1984, insurance is offered on 34 major crops on 17,868 county programs in 49 states and is available in virtually every agricultural county in the United States. Insured acres are estimated at 55.6 million for the current crop year.

The Corporation has also made several program and administrative changes for crop year 1984 which should improve the crop insurance program.

Improvements were made in the Individual Yield Coverage (IYC) plan for crop year 1984 by simplifying the method of computation and routing procedures. More intensified training is being provided and interagency working relationships are being strengthened.

In cases where ASCS denies an IYC request for any reason, including failure to meet a five-day required turnaround time, the producer or his authorized agent may ask the appropriate FCIC Field Actuarial Office (FAO) for reconsideration. This procedure applies to policies written by both MMA's and Reinsured Companies.

In cases where it is evident that IYC requests cannot or will not be honored by the ASCS county office, the Multiple peril Crop Insurance company may petition the FAO to bypass the ASCS office and complete the IYC documents for the producer directly. This alternative procedure is intended to be used only in the rarest of cases, following sincere attempts to resolve the differences standing in the way of ASCS-MPCI cooperation.

Every effort will be made to reduce response time and increase quality of service to insureds.

Improve internal fiscal control within the Corporation. Implement a premium income tracking system.

Compile and publish a comprehensive plan for Corporation operations; implement a monitoring and tracking system for measuring performance and objectives accomplishment.

Data requirements will be identified and incorporated into an integrated data base system.

Design and implement improved management information systems.

Financial standards for reinsured companies will be implemented and an audit system instituted.

Continue expansion of additional new crop programs based on potential for business, value of actual production, and importance to the U.S. agricultural economy.

Implement individual production history yield guarantees for 1984 cotton and rice programs.

Developmental work on individual production history programs for all remaining crops.

Developmental work for expansion into Hawaii and U.S. Territories.

Incorporate a "basic principles of insurance" test into the Agent certification training for agents not licensed by State insurance Boards.

Review provisions of contracts and compensation schedules of agency sales and service agreements and reinsurance treaties.

Budget Justification for F.Y. 1985

Administrative and Operating Expenses

The appropriation request for Administrative and Operating Expenses for fiscal year 1985 will allow the Corporation to continue expansion of the crop insurance program. Resources are requested to expand insurance coverage from the crop year 1983 level of 29.8 million insured acres to 55.6 million insured acres in crop year 1984, and to 68.9 million insured acres in crop year 1985.

The major portion of the budget will be used to support private sector delivery systems. Two basic forms of delivery are currently in place: reinsured companies, which provide all the fundamental insurance services and share underwriting gains and losses; and Master Marketers, operating under general agency sales and service agreements, which sell and service crop insurance written on FCIC paper.

Of the amount requested for Administrative and Operating Expense, over $155 million will be used for master marketing commissions, loss adjustment costs, and reinsurance administrative expense. The remaining $72.2 million will be used for the expenses of field actuarial offices, field operations offices, field staff, ASCS reimbursable work, Kansas City Operations offices, which includes computer support, and the Headquarters staff.

In total, our fiscal year 1985 request for Administrative and Operating Expenses represents an increase of $27.2 million over the fiscal year 1984 appropriations.

Premium Subsidy

The fiscal year 1985 appropriation request of $141 million for premium subsidies represents an increase of $55.9 million over the fiscal year 1984 appropriation. The $141 million would provide for maximum expansion of the crop insurance program to an estimated 62.6 million insured acres in crop year 1984. While the Fiscal Year 1984 appropriation for Administrative and Operating Expenses assumes a lower program level of 55.6 million insured acres, the Corporation will continue to strive for maximum expansion.

F.Y. 1984 Supplemental

The drought on 1983 crops resulted in a severe cash drain on the Corporation's revolving fund. Current estimates indicate that the Corporation may have a cash shortage this spring. Therefore, the Corporation is requesting a supplemental in F.Y. 1984 for emergency Treasury borrowing. This supplemental would permit the Corporation to borrow funds from Treasury if at any time the resources of the revolving fund become insufficient to meet its commitments. Supplemental borrowing is authorized by the Federal Crop Insurance Act of 1980 in such amounts provided in appropriation acts. An indefinite amount has been requested because of the difficulties in estimating the exact amount of supplemental funding required.

Exhibits

I would like to have two exhibits inserted in the record. The first exhibit is a revised table of the 1983 crop year experience, by commodity, as of January 1984, and reflects the changes that have taken place since the submission of the President's Budget.

The second set of exhibits (Exhibits II(a), II(b), and II(c)) shows loss ratios during the 36 years of our existence. The crop insurance program has had 18 years in which premiums have exceeded indemnities and 18 years in which the reverse has been true. The 36-year loss ratio is 1.26.

This concludes my statement. We will be glad to answer any questions or furnish any additional information you may desire.

Exhibit I

ESTIMATED CROP INSURANCE EXPERIENCE - 1983
as of January 1984

ALL PROGRAMS
(Dollars in Thousands)

Program	Amount of Premium a/			Amount of Indemnities			Loss Ratio		
	Government Operations	Reinsurance Operations	Total	Government Operations	Reinsurance Operations	Total	Government Operations	Reinsurance Operations	Total
Almonds	850	1,171	2,021	2,591	4,122	6,713	3.05	3.52	3.32
Apple	491	97	588	909	49	958	1.85	.50	1.63
Barley	5,042	3,378	8,420	4,558	2,871	7,429	.90	.85	.88
Bean	738	922	1,660	757	959	1,716	1.02	1.04	1.03
Citrus	768	---	768	6,957	---	6,957	9.06	---	9.06
Combined Crop	517	---	517	222	---	222	.43	---	.43
Corn	23,328	17,806	41,134	72,853	45,478	118,331	3.12	2.55	2.88
Cotton	14,696	7,250	21,946	33,307	11,383	44,690	2.27	1.57	2.04
Flax	247	121	368	243	125	368	.98	1.03	1.00
Forage Production.	7	1	8	10	1	11	1.43	1.00	1.37
Forage Seeding ...	5	1	6	12	1	13	2.40	1.00	2.17
Grain Sorghum	3,017	3,260	6,277	6,784	5,868	12,652	2.25	1.80	2.01
Grape	1,372	4,000	5,372	4,056	10,400	14,456	2.96	2.60	2.69
Hybrid Seed	284	83	367	2,215	1,254	3,469	7.80	15.11	9.45
Oat	860	487	1,347	751	365	1,116	.87	.75	.83
Pea	425	179	604	448	175	623	1.05	.98	1.03
Peach	298	332	630	979	953	1,932	3.28	2.87	3.07
Peanut	9,849	3,251	13,100	27,072	8,940	36,012	2.75	2.75	2.75
Potato	424	242	666	1,232	484	1,716	2.90	2.00	2.58
Prevented Planting	14	---	14	11	---	11	.78	---	.78
Raisin	3,862	18,000	21,862	3,385	21,600	24,985	.88	1.20	1.14
Rice	1,650	78	1,728	7,066	195	7,261	4.28	2.50	4.20
Rye	17	10	27	9	3	12	.53	.25	.44
Soybean	60,490	14,062	74,552	146,721	25,312	172,033	2.42	1.80	2.30
Sugar Beet	938	518	1,456	561	357	918	.60	.69	.63
Sugarcane	1,046	78	1,124	1,605	20	1,625	1.53	.25	1.44
Sunflower	2,156	1,469	3,625	3,147	1,763	4,910	1.46	1.20	1.35
Sweet Corn	79	21	100	101	42	143	1.28	2.00	1.43
Tobacco	17,484	6,886	24,370	72,059	20,658	92,717	4.12	3.00	3.80
Tomato	296	1,604	1,900	254	2,069	2,323	.86	1.29	1.22
Wheat	36,450	21,693	58,143	37,125	16,053	53,178	1.02	.74	.91
Total	187,700	107,000	294,700	438,000	181,500	619,500	2.33	1.70	2.10

a/ Includes government premium subsidy.

Exhibit II(a)

United States Department of Agriculture

FEDERAL CROP INSURANCE CORPORATION
TOTAL INSURANCE OPERATIONS

LOSS RATIOS - 1948-1968
CROP YEAR

PROGRAM	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	PROGRAM
Wheat	.58	1.43	.52	1.06	.85	1.25	1.42	1.26	1.09	.60	.16	.68	.23	1.09	.38	.95	.57	1.24	.54	1.14	1.01	Wheat
Cotton	.43	1.97	2.81	.82	.44	1.05	.56	.84	.67	.54	.25	.45	.52	1.38	1.24	.70	.46	.84	2.29	3.85	1.92	Cotton
Combined Crop	.06	.16	.94	1.65	2.33	.91	1.50	1.42	1.28	.83	.36	1.70	.27	1.23	.76	.45	.45	.07	.41	2.12	.10	Combined Crop
Tobacco	.43	.66	.61	.49	.79	1.90	.89	.40	.28	.34	.19	.38	.35	.29	.79	.62	.31	.53	.59	.38	.54	Tobacco
Corn	.17	.16	1.26	2.38	.25	.17	.56	1.47	3.35	.46	.56	.87	1.45	.23	1.52	.41	1.67	2.04	.45	.94	.66	Corn
Flax	.51	.62	.42	.49	.79	.95	.77	.77	.54	2.46	.45	1.64	.47	1.27	.65	.79	1.41	.40	.96	.79	.36	Flax
Bean	.29	.64	1.84	3.14	.55	.62	1.60	.66	.96	1.03	.32	.91	.59	.54	2.03	.61	1.58	2.29	1.01	.64	1.35	Bean
Citrus				---	.04	---	---	.03	.22	7.25	.15	.24	2.11	2.36	9.25	.03	.45	1.11	.29	2.75	2.21	Citrus
Soybean								.73	.74	.65	.36	.44	.56	.54	.67	.98	1.02	.95	.58	1.27	.78	Soybean
Barley									.39	.35	.39	1.08	.69	1.53	.81	1.05	.53	.24	.42	.62	.41	Barley
Peach										.50	.77	1.13	.76	.63	1.81	1.03	3.50	.54	.95	2.29	.24	Peach
Grain Sorghum												.27	.28	.70	.39	.75	1.03	.50	.42	.76	1.01	Grain Sorghum
Oat												.99	.65	1.26	.47	.60	.69	.22	.60	.48	.39	Oat
Rice													.58	1.03	.64	---	.68	.43	.34	.11	.77	Rice
Raisin														.01	---	3.64	.02	.07	.07	.06	.03	Raisin
Pea															3.08	.53	2.64	.87	2.69	.76	2.77	Pea
Peanut															.35	.77	1.31	.26	.25	.55	.53	Peanut
Potato															2.17	2.21	3.98	1.08	2.27	1.05	1.38	Potato
Apple																.35	.92	.37	1.91	.91	3.33	Apple
Cherry																4.84	.21	1.66	4.33	*	*	Cherry
Tomato																.41	.25	.27	1.81	.64	.97	Tomato
Safflower																	3.02	7.42	2.94	*	*	Safflower
Sugar Beet																		.29	.58	.60	.64	Sugar Beet
Tung Nut																		.08	.32	.15	4.92	Tung Nut
Grape																				1.02	1.25	Grape
Sugarcane																				.07	.20	Sugarcane
Puerto Rico Reinsurance																					.05	Puerto Rico Reinsurance
Sunflower																						Sunflower
Forage-Seed.																						Forage-Seed
Sweet Corn																						Sweet Corn
Forage-Prod.																						Forage-Prod.
Rye																						Rye
Almond																						Almond
Prev. Planting																						Prev.Planting
Hybrid Seed																						Hybrid Seed
ALL PROGRAMS	.53	1.31	.91	1.12	.97	1.15	1.24	1.14	1.26	.69	.26	.77	.58	.89	1.10	.77	.90	1.13	.68	1.27	1.05	ALL PROGRAMS

* No Program

Exhibit II(a)

United States Department of Agriculture

FEDERAL CROP INSURANCE CORPORATION
TOTAL INSURANCE OPERATIONS

LOSS RATIOS - 1969-1983

PROGRAM	CROP YEAR 1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1948-1983	PROGRAM
Wheat	.74	.46	.42	.42	.83	.97	.51	.94	1.47	.48	.98	2.85	.97	.88	.91						1.01	Wheat
Cotton	2.61	1.33	1.67	.97	.46	2.24	3.22	3.57	.47	1.13	1.48	1.81	1.15	1.86	2.04						1.61	Cotton
Combined Crop	.06	.21	.14	.29	1.02	1.06	.61	.46	1.06	.08	.07	6.96	.17	.32	.43						1.13	Combined Crop
Tobacco	1.06	.58	.39	.36	.67	.29	1.06	.91	2.98	.42	1.11	2.59	.90	.99	3.80						1.30	Tobacco
Corn	.57	1.17	.37	.25	.25	2.30	1.16	2.40	1.86	.20	.15	1.26	.58	.52	2.88						1.06	Corn
Flax	.27	.93	.69	.70	1.24	1.94	.98	2.53	1.44	.65	.53	1.97	.89	1.22	1.00						.90	Flax
Bean	.82	1.18	.67	.52	.91	.13	.82	.68	1.01	.90	.34	.71	1.01	2.95	1.03						1.43	Bean
Citrus	1.75	3.11	.63	1.23	.44	.42	.37	2.66	.28	1.01	.50	1.94	2.23	.05	9.06						1.47	Citrus
Soybean	.89	.59	.72	.79	.31	1.01	.39	1.11	.39	.35	.38	2.11	1.81	2.03	2.30						1.69	Soybean
Barley	.31	.66	.30	.61	.86	1.53	1.07	1.31	.99	.40	.56	2.39	.82	2.97	.88						.87	Barley
Peach	.41	1.19	1.77	2.18	2.41	1.14	1.42	.46	.50	2.17	.15	.62	.35	3.52	3.07						1.47	Peach
Grain Sorghum	.41	.96	.58	.87	.23	1.63	.52	.91	.47	1.46	.62	2.96	.91	1.14	2.01						1.15	Grain Sorghum
Oat	.43	.47	.25	1.23	1.03	1.05	.53	2.99	.56	.53	.60	2.44	1.42	.59	.83						.91	Oat
Rice	.44	.07	.51	.57	.63	.41	.23	.54	.72	.76	1.55	4.58	1.86	3.46	4.20						2.25	Rice
Raisin	.30	---	---	.01	.02	---	.20	11.66	.02	12.13	---	---	.01	6.29	1.14						1.71	Raisin
Pea	.72	.98	.59	.52	1.54	.78	.83	.80	2.93	.84	.63	.47	1.32	.69	1.03						1.19	Pea
Peanut	.63	.22	2.16	.53	.21	.32	.32	.49	.57	.28	.67	8.22	.62	.80	2.75						1.37	Peanut
Potato	1.54	*	*	*	*	*	*	*	*	---	.14	---	1.36	1.30	2.58						2.15	Potato
Apple	.24	1.65	1.06	3.25	1.31	1.48	.18	1.38	1.93	1.07	.80	.90	1.54	1.65	1.63						1.35	Apple
Cherry	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*						2.16	Cherry
Tomato	1.79	.30	.40	.84	.97	2.38	1.93	.19	.79	.29	1.44	.23	.39	2.57	1.22						1.35	Tomato
Safflower	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*						3.93	Safflower
Sugar Beet	1.28	1.32	.56	1.01	.77	1.13	1.90	.59	.33	.20	.39	.72	10.33	.41	.63						2.38	Sugar Beet
Tung Nut	.38	2.27	*	*	*	*	*	*	*	*	*	*	*	*	*						.79	Tung Nut
Grape	2.59	.77	---	4.10	1.55	.11	.10	.25	3.85	.20	.19	.17	.84	2.25	2.69						2.02	Grape
Sugarcane	.08	.22	.89	.94	2.79	.50	.46	.64	.84	1.57	.70	1.37	1.22	.74	1.44						.98	Sugarcane
Puerto Rico Reinsurance	.05	.16	.01	.08	*	*	*	*	*	.24	*	*	*	*	*						.14	Puerto Rico Reinsurance
Sunflower								.35	.12	.12	.43	1.03	.72	1.40	1.35						1.00	Sunflower
Forage-Seed.										2.39	4.57	5.90	4.67	2.60	2.17						3.93	Forage-Seed.
Sweet Corn										.57	.54	.72	1.12	.51	1.43						.89	Sweet Corn
Forage-Prod.											.68	3.41	3.31	2.15	1.37						2.19	Forage-Prod.
Rye												2.88	*	.48	.44						.36	Rye
Almond													.02	.76	3.32						1.83	Almond
Prev. Planting													*	5.73	.78						5.17	Prev. Planting
Hybrid Seed															9.45						9.45	Hybrid Seed
ALL PROGRAMS	1.08	.94	.60	.60	.60	1.17	.86	1.57	1.46	.50	.65	2.26	1.16	1.33	2.10 1/						1.26	ALL PROGRAMS

* No Program

1/ The 1983 crop year ratios are based on estimates as of January 1984.

United States Department of Agriculture

FEDERAL CROP INSURANCE CORPORATION
GOVERNMENT OPERATIONS

L O S S R A T I O S - 1948-1968
CROP YEAR

PROGRAM	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	PROGRAM
Wheat	.58	1.43	.52	1.06	.85	1.25	1.42	1.26	1.09	.60	.16	.68	.23	1.09	.38	.95	.57	1.24	.54	1.14	1.01	Wheat
Cotton	.43	1.97	2.81	.82	.44	1.05	.56	.84	.67	.54	.25	.45	.52	1.38	1.24	.70	.46	.84	2.29	3.85	1.92	Cotton
Combined Crop	.06	.16	.94	1.65	2.33	.91	1.50	1.42	1.28	.83	.36	1.70	.27	1.23	.76	.45	.45	.07	.41	2.12	.10	Combined Crop
Tobacco	.43	.66	.61	.49	.79	1.90	.89	.40	.28	.34	.19	.38	.35	.29	.79	.62	.31	.53	.59	.38	.54	Tobacco
Corn	.17	.16	1.26	2.38	.25	.17	.56	1.47	3.35	.46	.56	.87	1.45	.23	1.52	.41	1.67	2.04	.45	.94	.66	Corn
Flax	.51	.62	.42	.49	.79	.95	.77	.77	.54	2.46	.45	1.64	.47	1.27	.65	.79	1.41	.40	.96	.79	.36	Flax
Bean	.29	.64	1.84	3.14	.55	.62	1.60	.66	.96	1.03	.32	.91	.59	.54	2.03	.61	1.58	2.29	1.03	.64	1.35	Bean
Citrus				---	.04	---	---	.03	.22	7.25	.15	.24	2.11	2.36	9.25	.03	.45	1.11	.29	2.75	2.21	Citrus
Soybean								.73	.74	.65	.36	.44	.56	.54	.67	.98	1.02	.95	.58	1.27	.78	Soybean
Barley									.39	.35	.39	1.08	.69	1.53	.81	1.05	.53	.24	.42	.62	.43	Barley
Peach										.50	.77	1.13	.76	.63	1.81	1.03	3.50	.54	.95	2.29	.24	Peach
Grain Sorghum												.27	.28	.70	.39	.75	1.03	.50	.42	.76	1.01	Grain Sorghum
Oat												.99	.65	1.26	.47	.60	.69	.22	.60	.48	.39	Oat
Rice													.58	1.03	.64	---	.68	.43	.34	.31	.77	Rice
Raisin														.01	---	3.64	.02	.07	.07	.06	.01	Raisin
Pea															3.08	.53	2.64	.07	2.69	.76	2.77	Pea
Peanut															.35	.77	1.31	.26	.25	.55	.53	Peanut
Potato															2.17	2.21	3.98	1.08	2.27	1.05	1.38	Potato
Apple																.35	.92	.37	1.91	.91	3.33	Apple
Cherry																4.84	.21	1.66	4.33	*	*	Cherry
Tomato																.41	.25	.27	1.81	.64	.97	Tomato
Safflower																	3.02	7.42	2.94	*	*	Safflower
Sugar Beet																		.29	.58	.60	.64	Sugar Beet
Tung Nut																		.08	.32	.15	4.92	Tung Nut
Grape																				1.02	1.25	Grape
Sugarcane																				.07	.20	Sugarcane
Puerto Rico Reinsurance																					.05	Puerto Rico Reinsurance
Sunflower																						Sunflower
Forage-Seed.																						Forage-Seed
Sweet Corn																						Sweet Corn
Forage-Prod.																						Forage-Prod.
Rye																						Rye
Almond																						Almond
Prev. Planting																						Prev.Planting
Hybrid Seed																						Hybrid Seed
ALL PROGRAMS	.53	1.31	.91	1.12	.97	1.15	1.24	1.14	1.26	.69	.26	.77	.58	.89	1.10	.77	.90	1.13	.68	1.27	1.05	ALL PROGRAMS

* No Program

Exhibit II(b)

United States Department of Agriculture

FEDERAL CROP INSURANCE CORPORATION
GOVERNMENT OPERATIONS

Exhibit II(b)

LOSS RATIOS - 1969-1983

PROGRAM	CROP YEAR																					PROGRAM
	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1948-1983	
Wheat	.74	.46	.42	.42	.83	.97	.51	.94	1.47	.48	.98	2.85	.97	.93	1.02						1.03	Wheat
Cotton	2.61	1.33	1.67	.97	.46	2.24	3.22	3.57	.47	1.13	1.48	1.81	1.14	1.78	2.27						1.60	Cotton
Combined Crop	.06	.21	.14	.29	1.02	1.06	.61	.46	1.06	.08	.07	6.96	.17	.32	.43						1.13	Combined Crop
Tobacco	1.06	.58	.39	.36	.67	.29	1.06	.91	2.98	.12	1.11	2.59	.89	1.05	4.12						1.26	Tobacco
Corn	.57	1.17	.37	.25	.25	2.30	1.16	2.40	1.86	.20	.15	1.26	.59	.52	3.12						1.03	Corn
Flax	.27	.93	.69	.70	1.24	1.94	.93	2.53	1.44	.65	.53	1.97	.90	1.20	.98						.90	Flax
Bean	.82	1.18	.67	.52	.91	.13	.82	.68	1.01	.90	.34	.71	1.02	2.95	1.02						1.32	Bean
Citrus	1.75	3.11	.63	1.23	.44	.42	.37	2.66	.28	1.01	.50	1.94	2.23	.05	9.06						1.48	Citrus
Soybean	.89	.59	.72	.79	.31	1.01	.39	1.11	.39	.35	.38	2.11	1.83	2.14	2.42						1.71	Soybean
Barley	.31	.66	.30	.61	.86	1.53	1.07	1.31	.99	.40	.56	2.39	.82	.69	.90						.89	Barley
Peach	.41	1.19	1.77	2.18	2.41	1.14	1.42	.46	.50	2.17	.15	.62	.35	4.16	3.28						1.40	Peach
Grain Sorghum	.41	.96	.58	.87	.23	1.63	.52	.91	.47	1.46	.62	2.96	.93	1.23	2.25						1.13	Grain Sorghum
Oat	.43	.47	.25	1.23	1.03	1.05	.53	2.99	.56	.53	.60	2.44	1.39	.61	.87						.92	Oat
Rice	.44	.07	.51	.57	.63	.41	.23	.54	.72	.76	1.55	4.58	1.86	3.49	4.28						2.55	Rice
Raisin	.30	---	---	.01	.02	---	.20	11.66	.02	12.13	---	---	.01	6.29	.88						2.11	Raisin
Pea	.72	.98	.59	.52	1.54	.78	.83	.80	2.93	.84	.63	.47	.68	.73	1.05						1.19	Pea
Peanut	.63	.22	2.16	.53	.21	.32	.32	.49	.57	.28	.67	8.22	.62	.79	2.75						1.31	Peanut
Potato	1.54	*	*	*	*	*	*	*	*	---	.14	---	1.36	2.06	2.90						2.16	Potato
Apple	.24	1.65	1.06	3.25	1.31	1.48	.18	1.38	1.93	1.07	.80	.90	1.54	1.56	1.85						1.35	Apple
Cherry	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*						2.61	Cherry
Tomato	1.79	.30	.40	.84	.97	2.38	1.93	.19	.79	.29	1.44	.23	.39	2.63	.86						1.40	Tomato
Safflower	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*						3.93	Safflower
Sugar Beet	1.28	1.32	.56	1.01	.77	1.13	1.90	.59	.33	.20	.39	.72	11.58	.51	.60						2.55	Sugar Beet
Tung Nut	.38	2.27	*	*	*	*	*	*	*	*	*	*	*	*	*						.75	Tung Nut
Grape	2.59	.77	---	4.10	1.55	.11	.10	.25	3.85	.20	.19	.17	.84	2.25	2.96						1.72	Grape
Sugarcane	.08	.22	.89	.94	2.79	.50	.46	.64	.84	1.57	.70	1.37	1.22	.74	1.53						.98	Sugarcane
Puerto Rico Reinsurance	.05	.16	.01	.08	*	*	*	*	*	.24	*	*	*	*	*						.14	Puerto Rico Reinsurance
Sunflower								.35	.12	.12	.43	1.83	.70	1.43	1.46						1.07	Sunflower
Forage-Seed.										2.39	4.57	5.90	4.59	2.75	2.40						4.05	Forage-Seed.
Sweet Corn										.57	.54	.72	1.10	.43	1.28						.81	Sweet Corn
Forage-Prod.											.68	3.41	3.16	2.12	1.43						2.17	Forage-Prod.
Rye												2.88	---	.27	.53						.38	Rye
Almond													.02	.76	3.05						1.22	Almond
Prev. Planting														5.73	.78						5.17	Prev. Planting
Hybrid Seed															7.80						7.80	Hybrid Seed
ALL PROGRAMS	1.08	.94	.60	.60	.60	1.17	.86	1.57	1.46	.50	.65	2.26	1.18	1.44	2.33 1/						1.26	ALL PROGRAMS

* No Program

1/ The 1983 crop year ratios are based on estimates as of January 1984.

Exhibit II(c)

United States Department of Agriculture
FEDERAL CROP INSURANCE CORPORATION
REINSURANCE OPERATIONS

LOSS RATIOS - 1981-1983
CROP YEAR

PROGRAM	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1981-1983	PROGRAM
Wheat													.79	.74	.74						.74	Wheat
Cotton													1.36	2.37	1.57						1.79	Cotton
Combined Crop													1/	---	---						---	Combined Crop
Tobacco													1.58	.79	3.00						2.01	Tobacco
Corn													.38	.52	2.55						1.38	Corn
Flax													---	1.29	1.03						1.16	Flax
Bean													.11	3.03	1.04						2.25	Bean
Citrus													1/	---	---						---	Citrus
Soybean													.68	1.14	1.80						1.43	Soybean
Barley													.71	.45	.85						.70	Barley
Peach													1/	2.07	2.87						2.66	Peach
Grain Sorghum													.97	.94	1.80						1.30	Grain Sorghum
Oat													1.94	.53	.75						.80	Oat
Rice													1/	1.68	2.50						2.22	Rice
Raisin													1/	---	1.20						1.20	Raisin
Pea													1/	.29	.98						1.11	Pea
Peanut													1/	.87	2.75						2.11	Peanut
Potato													---	.95	2.00						2.00	Potato
Apple													---	2.23	.50						1.36	Apple
Cherry													*	*	*						*	Cherry
Tomato													1/	.17	1.29						1.29	Tomato
Safflower													*	*	*						*	Safflower
Sugar Beet													.10	.18	.69						.35	Sugar Beet
Tung Nut													*	*	*						*	Tung Nut
Grape													1/	---	2.60						2.60	Grape
Sugarcane													1/	---	.25						.25	Sugarcane
Puerto Rico Reinsurance													*	*	*						*	Puerto Rico Reinsurance
Sunflower													1.02	1.33	1.20						1.25	Sunflower
Forage-Seed.													1/	2.22	1.00						1.50	Forage-Seed.
Sweet Corn													1/	1.21	2.00						1.77	Sweet Corn
Forage-Prod.													---	2.36	1.00						3.00	Forage-Prod.
Rye													1/	.96	.25						.30	Rye
Almond													1/	---	3.52						3.52	Almond
Prev. Planting													---	---	---						---	Prev. Planting
Hybrid Seed													*	*	15.11						15.11	Hybrid Seed
ALL PROGRAMS													.68	.88	1.70 2/						1.31	ALL PROGRAMS

* No Program

1/ No insurance written on these commodities by the reinsured companies.

2/ The 1983 crop year ratios are based on estimates as of January 1984.

Biographical Sketch

EDWARD D. HEWS

Edward D. Hews is the Deputy Manager of the Federal Crop Insurance Corporation (FCIC). Prior to his appointment in March 1983, he served as the Deputy Administrator for Program Planning and Development with the Agricultural Stabilization and Conservation Service (ASCS).

Mr. Hews joined the Department of Agriculture in 1969 as an Area Director for ASCS. While at ASCS, he became Director of the Commodity Loan and Services Division, Regional Director for the Eastern Region, Director of Administrative Services, and Assistant to the Deputy Administrator, State and County Operations. He subsequently served as Executive Assistant to the Administrator and was Acting Administrator of ASCS during the transition period in 1981.

Before coming to the Department of Agriculture, Mr. Hews was Chairman of the Aroostook County, Maine Agricultural, Stabilization and Conservation Committee. He farmed in Aroostook County from 1943 until 1971, raising potatoes, sugar beets, barley and other crops.

A member and past Director of the Maine Potato Council, Mr. Hews has been active in the National Grange and the Presque Isle Rotary Club. He has also served as President of the Washington, D. C. chapters of the Maine State Society, the National Conference of State Societies, and the Soil Conservation Society of America.

Mr. Hews and his wife Barbara have three children and currently reside in Northern Virginia.

BUDGET REQUEST

Mr. Sprague. Thank you, Mr. Chairman, and I would, with your permission, like to highlight my statement.

It is a pleasure for me to appear here to present our 1985 budget for the Federal Crop Insurance Corporation. Our budget request for 1985 is roughly as follows: $227 million for administrative and operating expenses. This will be used to fund the expanded crop insurance program. Of that amount, $88 million is projected to go to reinsured companies for services provided, $123 million to go to agencies selling under the agency sales and service agreement, and to private sector loss adjusters for the performance of their functions. Also, $16 million of the A&O funds will go for the activities of the agency itself, including underwriting, actuarial, and program development.

We are asking for $141 million for premium subsidy for the 1984 crop year. That amount bears a direct relationship to the actual sales that we expect to achieve in the 1984 crop year.

So that makes a total budget request of some $368 million for fiscal year 1985 for ongoing programs. That is up $58 million from the 1984 appropriations level, but the level of business is up a corresponding amount or more.

We are also requesting a supplemental appropriation in fiscal year 1984 for emergency Treasury borrowing authority. The effects of the drought in 1983 created an unprecedented drain upon the Corporation's reserve. We paid record levels of indemnities and, as a result, face some cash flow problems unless we receive this emergency borrowing authority. Potentially, we could run out of money, if we face early season losses in crop year 1984.

1983 CROP YEAR RESULTS

I would like to review briefly the experience of crop year 1983. As you will recall, our program is intended to be the primary form of Federal disaster protection available for farmers. Since enactment of the new legislation, insurance availability has expanded from some 1,600 counties to each of the 3,006 counties which have significant agricultural production.

Our county programs—that is, an offer of insurance for a commodity in a county—have increased over 300 percent, from 4,600 county programs in 1980 to 15,400 in 1983. Acres insured and insurance in force have increased rather substantially. Our current estimates for 1983 experience show total premium income between both the public and private sector of about $295 million, and total indemnities of $620 million, for a combined loss ratio of 2.10. This is the reason we need the emergency borrowing authority.

In 1983, the Government share of premium income was about $188 million, losses of $428, a loss ratio of 2.33, while the remaining premium of $107 million was handled by reinsured companies. We expect indemnities to total about $181 million, with a resulting loss ratio of 1.70 for the reinsured companies.

There have been several program and administrative changes during crop year 1983 that I would like to highlight. There have been some major improvements in the timeliness of document processing. Our experience in paying claims has been far more timely in 1983 than it was in 1982. The private sector involvement has been expanded, and many of the startup problems associated with the transition in the private sector delivery system are behind us.

We initiated a reinsurance agreement with Puerto Rico which allowed crop insurance on that island for the first time supported by the Federal Government since the early 1970's.

We have spent a great deal of effort working with ASCS in the crop year 1983 and have developed a new memorandum of understanding which will involve that agency to a greater degree in the future in a cooperative effort with Federal Crop and the private sector insurance people.

We have developed and been involved in the development of a computer software evaluation program that will assist producers as they evaluate the need for crop insurance upon their own individual farms.

EXPANSION IN CROP YEAR 1984

Looking toward crop year 1984, our appropriations for 1984 have permitted the Corporation to continue to expand the availability of crop insurance. We now insure some 34 major crops. We have 17,800 county programs. Crop insurance is now available in virtually every agricultural county in the Nation. We are expecting to insure about 55 million acres in the current crop year.

CROP YEAR 1984 PROGRAM CHANGES

There have been several program changes that I would like to highlight. The individual yield coverage program has a number of improvements designed to enhance the attractiveness of this program, and improvements designed to facilitate the administration of it. We have improved special fiscal control within the Corporation. We have put together an improved management information system. We are continuing the expansion into additional crop programs. We are developing the basis for expansion into additional crops and even into the State of Hawaii, the only State in which there is currently no program.

JUSTIFICATION FOR BUDGET REQUEST

Looking at 1985 and the justification for our budget request, I would like to highlight the fact that the request would allow continued expansion of the crop insurance program. The resources that we have requested would allow the expansion from 1983 levels of 29.8 million acres insured to 55.6 million in 1984, and then to nearly 69 million acres in 1985.

We would have the capacity, the capability, to literally double our business between 1983 and 1985 with approval of this request. The major portion of the budget request will be used to support the private sector delivery systems. It costs money to sell and service crop insurance policies. Today, we have two basic forms of delivery in place: We deal with reinsured companies under a reinsurance treaty, and we deal with agencies selling under the agency sales and service agreement.

Of the total amount requested, $155 million will be used to support the activities of the private sector, which contracts with us for services to farmers.

In total, the request for administrative and operating expenses represents an increase of $27 million over the request for fiscal year 1984, but that bears an almost direct relationship to the increased amount of the crop insurance we expect to see in force.

The premium subsidy portion of the request, $141 million, represents an increase of nearly $56 million from fiscal year 1984 and bears a direct relationship to our sales expectations for crop year 1984. That level of appropriation would provide for maximum expansion of the crop insurance program to an estimated 55.6 million acres insured in 1984.

FISCAL YEAR 1984 SUPPLEMENTAL REQUEST FOR BORROWING AUTHORITY

Regarding the 1984 supplemental appropriation, I indicated earlier that the drought in 1983 resulted in a substantial cash drain upon the Corporation's revolving fund. So, we are requesting this supplemental for emergency Treasury borrowing authority. It would permit us to borrow funds from Treasury when resources of the revolving fund become insufficient to meet its commitments; in other words, when we are no longer able to pay claims when due. We are requesting specific borrowing authority not to exceed $100 million. We believe that this is appropriate to meet what we regard as our current and existing need.

EXHIBITS FOR THE RECORD

I have a couple of exhibits that I would like to have entered into the record. The first one is the 1983 crop year experience by commodity, and it reflects the changes that have taken place since the submission of the President's budget in January.

The second exhibit shows loss ratios during our 36 years of existence. The crop insurance program has had 18 years in which premiums have exceeded indemnities and 18 years in which the reverse has been true. Our 36 year loss ratio is 1.26. If one were to exclude crop years 1983 and 1980 from our experience, that loss ratio would be below 1.

[CLERK'S NOTE.—The exhibits referred to appear with Mr. Sprague's prepared statement on pp. 47–52.]

Mr. Chairman, this concludes my statement. We would be most happy to answer any questions.

Senator COCHRAN. Thank you, Mr. Sprague. Senator Abdnor?

Senator ABDNOR. Thank you.

I had a good opportunity to visit with Mr. Sprague, and I guess my questions were taken care of. I appreciate the chance.

REMARKS OF SENATOR COCHRAN

Senator COCHRAN. Thank you very much, Senator.

Let me thank you at the outset, Mr. Sprague, for your accommodating a request from me recently, when I had some questions asked of me that I couldn't answer relating to a Federal crop insurance program. You were kind enough to come up to the Hill and bring some of your staff and let us have a chance to go over problems that were being discussed out in the countryside involving Federal crop insurance.

This was a big help to a lot of staff members of other Senators, as well, and we appreciate your coming up to the Hill in response to that request. I deeply appreciate it.

One thing that was brought up in the meeting we had in the Agriculture Committee offices was the hesitation that some farmers were having to buying insurance when they had the idea that the cost of the premium was going to be going up and the coverage that they were going to be getting was not as good as the coverage they had the year before.

I was led to believe that this was a widespread problem throughout the Southeast, particularly. Since that meeting, have you had a chance to look into that, and can you tell the committee whether or not farmers are going to be participating in this program, or are we seeing the beginning of the end of Federal crop insurance because of lack of farmer participation?

SELLING CROP INSURANCE IN 1984

Mr. SPRAGUE. Mr. Chairman, as I look at our opportunity in 1984 to sell crop insurance, I'm very encouraged by what I see. I believe that more farmers than ever before are recognizing the need for the kind of protection that this program offers. The changes we have had to make in some programs, that have lowered coverages and increased rates in some cases, had to come if we are to maintain a sound program, one that is based upon insurance principles and practices, one with underwriting goals of breaking even over a long period of time in every major segment of its business.

LOSS RATIOS IN SOYBEANS

The changes to which you refer primarily occurred in the soybean program, a program that was initiated about 3 years ago across much of the soybean belt of the South. It is a program that has been well received by those producers during that period of time, but a program that was in trouble because of excessive loss ratios.

Our loss ratios in that crop program across the South have exceeded 2 for 3 consecutive years, and during one of those years, the average harvested yield exceeded the 10-year average. We had obviously overinsured some and undercharged some. We did make some adjustments to both coverages and premium rates that will bring this program into line and make it actuarially sounder for the future, and will put it in the position where the program can survive.

We have had some very severe losses in many areas of the country, and we expect losses every year under this program. Our underwriting goal is to break even over a long period of time with every segment of business. I believe the changes that have been made put us on a far sounder footing for the future than we were on a year ago. Crop insurance is still an attractive buy for the producers in that area because of the subsidies that are included in this program.

The fact that the Federal premium subsidy amounts to 30 percent on the basic 65-percent level of coverage, and the fact that all the administrative and operating costs of this program are borne by the appropriated funds, and ultimately by the U.S. taxpayer, means that a producer can buy a dollar's worth of premium for about 50 cents of his own money.

If our yield guarantees reflect his capability to produce, and if our rates are anywhere near the risk that we are assuming—and the objective is to exactly match those risks—we should be offering each producer a good buy.

CHANGES IN COVERAGES

We have made changes in regard to the individual yield coverage that are very important to many producers. Individual yield coverage offers guarantees based upon individual production history of farmers, and it is the fairest way that we have been able to devise to establish coverages.

For the better producers, it is a substantial improvement over the traditional area coverages offered by the Corporation in the past. Nationwide, producers are embracing this approach to yield coverages with great enthusiasm.

As we look at the period of time in which most of the sales for 1984 will be made, in the next 30 days, we are optimistic about sales. We believe that the widespread drought last year will lead to many more people taking a good, solid look at crop insurance, and we know that lenders in many cases are encouraging the use of crop insurance as a risk management tool.

SALES IN THE SOUTH

Senator COCHRAN. Do you have any projections? Maybe I overlooked them in your statement, if you got into this. We are in the height of the sales season right now, I would think, in many areas of the country, particularly the South. Are you getting good reports back from the field?

Mr. SPRAGUE. Reasonably good reports at this time. The only sales numbers that are complete enough to be fairly evaluated reflect winter wheat sales, a crop that will be harvested this summer, and it appears that those sales are up at least 35 percent from a year ago, and reflect a general increased interest in the crop insurance program in many areas of the country.

OPTIMISTIC PROJECTIONS

Senator COCHRAN. That is very good news. It seemed as though participation just never was what it was expected to be. Each year projections would be that so many farmers would participate, and the projections were always way off. Do you think we are getting better projections?

Mr. SPRAGUE. Well, I hope so. We are not quite as optimistic today as some of my predecessors were, but I think you have to look back at the climate that existed 2 or 3 years ago when those overly optimistic projections were made. Between 1979 and 1982, the Corporation quadrupled the amount of insurance-in-force. In fact, it doubled it between 1981 and 1982.

Now, that kind of experience led people to expect a continued capability to double every year or four times in 3 years, and most of us, if we had been in business, recognize that the higher the level at which you already are, the tougher it is to increase participation or increase business. Some of those projections were just simply unrealistic. They were based upon short-term experience and were not borne out by what actually happened later.

EFFECT OF 1983 DROUGHT—REQUEST FOR SUPPLEMENTAL

Senator COCHRAN. I notice that you pointed out the effect of the 1983 drought on those insured by the corporation as really severe, and it drained a lot of the resources from the Corporation. You are asking for a $100 million supplemental.

Mr. SPRAGUE. $100 million for 1984.

Senator COCHRAN. Right. Is this the amount that you still feel is needed? I know this was submitted some time ago. Do you think that is going to be enough?

Mr. SPRAGUE. At this point, that would appear to be more than sufficient to meet our needs. The only thing that would put us in great difficulty would be early season losses in 1984 that exceed the comparable receipt of premium income from producers.

Senator COCHRAN. When will this supplemental be needed in order to avoid delaying payments on claims?

Mr. SPRAGUE. At this point, we believe we can make it without it, to be honest with you, sir, but the cash flow projections indicate very, very low balances in the Corporation account. We are running a great deal of risk without that authority. What we are requesting is borrowing authority that we would use as needed. We are asking for $100 million, because we think that would more than cover our potential needs over the next several months.

CROP INSURANCE REPLACING DISASTER ASSISTANCE PROGRAMS

Senator COCHRAN. When we put this Federal Crop Insurance program in place, or reformed it and expanded it in 1980, the hope was that it would replace the disaster assistance programs that are administered by the Farmers Home Administration. We are not at that point now, in my judgment, where we can say that Federal Crop Insurance is capable of replacing disaster relief assistance.

When do you think we would be able to realize that goal? What level of participation would we have to have by farmers around the country in order to justify a discontinuance of all other disaster assistance programs?

Mr. SPRAGUE. Well, Mr. Chairman, that is a rather difficult figure to project at this point. I think we need to recognize that when we consider crop insurance participation, private crop hail insurance is also crop insurance, and that, for many people in this country, meets their need for protection, and, therefore, the participation in that insurance program really should be added to the comprehensive multiple peril insurance that is offered by the Federal Crop Insurance Corporation and the companies it reinsures.

ALTERNATIVE PROGRAMS AFFECTING CROP INSURANCE

At some point, the need for alternative programs obviously completely disappears. I believe that we are hurting crop insurance participation levels today by having alternative programs. The programs administered by ASCS—the disaster payment programs—are now a thing of the past. All producers of the seven crops for which those payments were authorized are now eligible for crop insurance, and there is no way that the administration is going to authorize payments under the authority of that program when such a producer passed up the opportunity to purchase a subsidized crop insurance program that would have met his needs.

I personally am advising farmers across this country today to save their postage and their plane fare and not come to Washington or write to Washington seeking after-the-fact disaster assistance. I am telling them that crop insurance is the primary protection available today from the Federal establishment, and it can meet their needs. It is a vastly improved program compared to what was available in 1980, or even in 1982. I believe we are in the position today where crop insurance can replace these other programs. In the first place, a loan really does not meet the need of a producer who has suffered a crop loss. He needs an indemnity payment. He needs money in his hand that he can use to repay his loan or to feed his family.

That can come from an insurance program like the crop insurance program. An additional loan, however, needs to be repaid regardless of the rate of interest that he is charged, and in effect, it really does not meet his need for cash in hand.

So I think we are close today to the time when we could do away with most of the alternative disaster assistance available to producers, and I think that if such assistance were done away with, it would increase the participation levels of crop insurance. To date, there are still many producers out there who believe that if the worst happens, they will be bailed out somehow by some kind of government program.

PAYMENT OF CROP INSURANCE LOSSES

Senator COCHRAN. There are several farmers who have contacted my office in the past several weeks complaining about the fact that they can't get their claims paid by the Federal Crop Insurance agents, and they are at a point where they are trying to arrange financing for this planting season. They don't know when their claims will be serviced.

What is the problem there? Are these farmers who are simply having a dispute with their agents over how much they are due, or is there a considerable amount of delay in servicing these claims or adjusting these losses?

Mr. SPRAGUE. Senator, it does take some time to pay a loss under the crop insurance program. In many cases, it takes quite a great deal of time between the identification of a damaged crop to the time that that crop is harvested. We generally do not settle a claim until harvest is completed and the crop is salvaged to the extent practical, and the production is determined. At that point, we establish a formal claim.

For 1983 claims, we have been able to pay nearly 70 percent of those claims within a 30-day period of time. It is my objective, frankly, to pay them all, if possible, in that timeframe. We paid about 90 percent of the claims in 60 days time in 1983. That is a substantial improvement from 1982, but it is still not good enough to suit me.

The 9 or 10 percent of claims that take more than 60 days generally are controversial in some respect. Either the producer or the adjuster failed to agree on the amount of production, on the salvaged production on that farm. Perhaps, there was something wrong with some of the paperwork, or an agent failed to do the job that he should have done, or there was simply a breakdown in our communication system or in our review system, and those things happen. We are always going to have a few unsatisfied clients, but I am determined to improve the performance of my agency in regard to paying claims.

We have seen some improvement. I expect further improvement in the years to come. The private sector companies, on the other hand, operating under a reinsurance agreement, in most cases, have a mandate to pay within 30 days, and they have met that mandate. With the kinds of reviews that are appropriate in this kind of a program, it is unlikely that very many producers are going to be paid in less than 2 or 3 weeks, but some are being paid in that time span. I personally have talked to several producers in recent weeks who have received their checks within 3 weeks of the time that they signed their claim form. So while there is improvement, I am not satisfied with the extent of that improvement. I expect continued improvement in the timeliness of service to producers, because that is the bottom line. We have to satisfy farmers if we expect to keep them in this program.

SHIFT OF SALES AND LOSS ADJUSTMENT FUNCTION TO PRIVATE SECTOR

Senator COCHRAN. I am having a hard time reconciling the fact that in 1981 the Federal Crop Insurance Corporation began to shift sales and losses adjustment functions from the Government work force to the private sector. Yet looking at the administrative expenses of the Corporation, we see that they have increased from $38 million in 1980 to $173 million in 1982, and the estimate for 1984 is $474 million. Why is that?

Mr. SPRAGUE. There are a number of reasons, one of which is that some of those earlier numbers do not fully reflect the costs incurred, because some costs were restored by later appropriations. That has the net effect of distorting the apparent costs for 1983 and 1982.

Furthermore, you are drawing your conclusions from the request for appropriations, some of which have been returned to the U.S. Treasury when levels of insurance handled and sold did not meet budgeted expectations. Generally speaking, the per unit cost of crop insurance has not changed very dramatically. Crop insurance administrative and operating costs are going to bear a very direct relationship to the level of insurance-in-force. We pay commissions based on a percentage of premium income. We pay some expense reimbursements on the same basis.

My own agency's operations, which are a small part of that total, are relatively stable. Our expenses for the operation of the Federal Crop Insurance Corporation will be about the same whether there is $200 million of crop insurance in force or $600 million. Obviously, we do expect to pare our work force when there are relatively low levels of program activity, but our response time is slow.

In total, those costs bear a pretty direct relationship to the amount of insurance-in-force, if you consider the adjustments necessary to cover the restoration for previous year expense factors.

Senator COCHRAN. Thank you very much.

SUBMITTED QUESTIONS

We have a vote on the floor which is going to require my going over there. I have a few more questions to ask. I think rather than come back over here for finishing up just a few questions, I will submit these to you and let you have a chance to answer them in writing for the record.

Mr. SPRAGUE. We will be delighted to do so, sir.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

1984 SUPPLEMENTAL REQUEST

Question: The drought of 1983 resulted in a large cash drain on the Corporation's revolving fund, and FCIC has, therefore, requested supplemental language which would provide for emergency Treasury borrowing to pay indemnities due insured farmers. It is my understanding the level of borrowing required for F.Y. 1984 to cover the losses is estimated at $100 million.

Are you having cash flow problems at this time?

Answer: The Corporation's cash balance on March 30, 1984, is $127,574,781. Current cash flow estimates indicate that our cash position, as a result of the heavy 1983 losses, will be at a critical level in late April or early May 1984.

Question: By when will this supplemental be needed?

Answer: The supplemental will be required by late April or early May 1984. If early reports of winterkill damage to fall-planted wheat are confirmed, indemnity payments could place the Corporation in a negative cash position and preclude the payment of claims.

Question: Do you still estimate that $100 million would provide sufficient capital?

Answer: The actual level of borrowing is difficult to predict because of variation in timing and amount of collections and disbursements. Therefore, the level of borrowing required in fiscal year 1984 to cover 1983 crop losses and provide sufficient working capital for the 1984 program is still estimated at $100 million.

Question: Is there any chance this supplemental will not be needed?

Answer: Considering the projected cash flow position of the Corporation and the high probability of winter wheat indemnity payments for losses incurred by freeze damage, the Corporation may not be able to maintain sufficient capital without this supplemental appropriation prior to the 1985 fiscal year.

Question: What level of indemnities has been paid by the Corporation associated with the 1983 drought?

Answer: As of March 30, 1984, the Corporation has paid $386,107,092 in total indemnities for Government operations only.

As of March 15, 1984, for reinsurance operations, a total of $163,368,000 has been paid in indemnities.

A report of indemnities by cause of loss will not be available until early June, when the 1983 loss season is complete.

REPLACEMENT OF FARM DISASTER PROGRAMS

Question: It is clear that every effort is being made to replace Farmers Home Administration disaster relief programs with Federal crop insurance. Is there a date by which you plan to have in place a crop insurance program that could adequately provide protection at a reasonable price to all farmers in the U.S.?

Answer: Since enactment of the 1980 Federal Crop Insurance legislation, insurance has expanded from 1,676 to over 3,000 counties. The Corporation presently insures all the basic commodities and 28 others in the United States. We expect to continue the expansion of the program for the 1984 and subsequent crop years.

It is our belief that crop insurance offers most farmers effective risk protection at a fair price. The expanded insurance program has already replaced the old disaster payments program. The disaster loan program of FmHA continues to provide supplemental disaster assistance for livestock, prevented planting, and other losses not generally covered by insurance and where participation in the crop insurance program has not increased to the extent necessary to assure survival of farming in areas with extraordinary weather related losses. However, we anticipate that with continued expansion of the crop insurance program, we will soon be able to provide adequate protection in areas now covered by the disaster loan program.

PARTICIPATION RATES

Question: Do you have some participation rate that needs to be obtained before the disaster relief programs are terminated? (Cut of $670 million requested in the FmHA Emergency Disaster loan program.)

Answer: There is no set participation rate that would terminate the FmHA disaster relief program. The 1985 FmHA Emergency Disaster Loan program will be available with funds necessary to provide supplemental assistance to farmers in areas inadequately served by FCIC, or for losses not covered by FCIC programs.

ASCS DISASTER PROGRAM

Question: What has the Corporation done to assure that farmers can get insurance on crops formerly covered by ASCS disaster programs?

Answer: Since crop year 1980, insurance has expanded from 1,676 to over 3,000 counties. Crop insurance is now available on all acreage formerly covered by the disaster payments program. Thus, the crop insurance program is the primary risk protection program available to farmers from the Federal government.

ACTIONS TAKEN TO INCREASE FARMER PARTICIPATION

Question: What actions are you taking to increase farmer participation?

Answer: The goal of the Corporation is to increase awareness and understanding of the Federal crop insurance program among farmers and agricultural groups, so that farmers can make informed decisions about risk management based on their own needs and desires.

The following are several of the ways in which we hope to reach that goal:

1. FCIC has engaged a national advertising firm to promote crop insurance. In addition to a limited national advertising campaign aimed at major agricultural periodicals, the firm has developed radio and print ads on a crop-specific basis for localized use. These ads, designed to address the specific risk management needs of the local farmer, are available to agents on a cost-sharing basis.

2. USDA and FCIC officials have stepped up efforts to participate in farmer and farm group programs. Particular emphasis is being placed on farm management organizations and lending institutions, whose vested financial interest in agriculture can be protected through sound risk management.

3. Each ASCS and FmHA county office has received current crop insurance literature which is being distributed to farmers who visit the office. Additionally, the Secretary of Agriculture emphasized his support for and commitment to the crop insurance program at a meeting involving all ASCS and FmHA State Executive Directors (SED's) several months ago.

4. FCIC and the Cooperative Extension Service (CES) have signed a Memorandum of Understanding calling for increased focus on crop insurance by county Extension Service agents. To accomplish this, CES is conducting "in-state training programs" for county agents, featuring a cash flow approach to risk management.

FCIC honors each county Extension agent's commitment to impartiality in his role as counsellor to farmers. Our objective is to assure that each agent is fully aware of the latest features of the crop insurance program so that they can provide informed counselling services.

5. FCIC and ASCS have cooperated in an extensive program to train ASCS county personnel in the completion of Individual Yield Coverage (IYC) documents. The lack of training in the past led to decisions by a number of higher-yield producers, who were interested only in IYC, to forego their efforts to obtain crop insurance. Training has now been completed on a nationwide basis.

6. The action that will do most to attract new customers, of course, is improving the quality of the product and service. We have been striving to do this. With the new IYC program, rates are

down and coverages are up in almost every instance, making today's crop insurance a high value package. Additionally, operating improvements have dramatically reduced the time it takes to verify an offer and pay a claim. We believe that these kind of internal efforts will do as much as anything else to improve the image of the Corporation and attract new producers into the program.

IMPROVED CLAIMS SERVICE

Question: I have been contacted by many farmers from my state complaining about the time required in getting a claim paid. Many farmers are still waiting on claims to be settled in order to complete loan applications for this year.

What has the Corporation done to improve claims service?

Answer: In 1983, a major effort was undertaken to improve the loss adjustment process in order to provide more timely payment of claims. A new document tracking system was installed. Areas of duplication and overlap in the processing cycle were eliminated. Although not entirely completed, these improvements have resulted in more timely payments.

In addition, the following items are steps being implemented or have already been implemented to improve claim service:

1. The Corporation is currently entering the second year of a loss adjuster certification program designed to assure accurate and timely service to producers. This program entails an intensive training program and strict quality control guidelines assuring objectives are met.

2. Implemented a postage paid reimbursement procedure to agents to entice timely mailing of contract folders for loss adjustment inspections.

3. Acquired services of document processing representatives of the National Finance Center to identify and recommend areas of improvement in processing documents in the Kansas City office. Their recently received report identifies many positive solutions which are currently under study for implementation.

4. Implemented a field tracking system identifying time response deficiencies and unusually high error ratios for immediate correction by field operations directors.

5. Establishing a standards of performance for loss adjustment contractors to meet in providing timely and efficient service.

Question: What is the average service time?

Answer: The goal of the Corporation is to pay all claims within 60 days. The following table indicates the percentages of those farmers who were paid within 30 days following a loss and those paid within 60 days, for the last three years.

	30 days	60 days
1981	40%	63%
1982	38%	64%
1983	59%	75%

The above improvements in service time occurred during a year when the extent and severity of losses were the greatest in the Corporation's history. Our goal is to pay all claims within 60 days.

Question: How does it compare with private companies?

Answer: With the lower volume of business per company, the private company generally can provide somewhat faster service though this can vary greatly.

APPEAL PROCESS - UNSATISFIED CLAIM SETTLEMENT

Question: What kind of appeal process is available to producers who are dissatisfied with their claim settlement?

Answer: Producers not satisfied with a claim settlement may submit an appeal in accordance with Corporation procedures on controversial claims. If the insured's claim is rejected he/she may make a first level appeal to the field operation director. If the claim is denied at the field operations level, a second and last appeal may be made to the Kansas City office. If all appeals are exhausted and the insured is still not satisfied, the final resort would be litigation.

CLAIMS SERVICE BY REINSURED COMPANIES COMPARED TO FCIC

Question: We hear complaints about FCIC's slow claims service, yet we hear few complaints about service provided by private companies.

How do the service time lags compare between FCIC and the reinsured companies?

Answer: In crop year 1983, the percentage of those farmers who were paid within 30 days following a loss and those paid within 60 days, for FCIC, were 59 percent and 75 percent, respectively. With the lower volume of business per company, the private company generally can provide somewhat faster service though this can vary greatly.

Question: Do reinsured companies have to comply with state requirements that claims be paid within 30 days? Do master marketers have this same requirement?

Answer: Reinsured companies are subject to the various laws and regulations established by state insurance departments and must comply with state requirements.

Master marketers are not involved in the adjustment and payment of claims.

TIMELINESS OF CLAIMS PROCESSING

Question: How does the timeliness of claims processing compare between the two delivery systems?

Answer: Approximately 60-65 percent of claims paid by the Corporation were completed within a 30-day time span. Estimates by reinsured companies indicate approximately 85-90 percent of claims paid fall within a 30-day time span. We are in the process of verifying this. The major reason for the difference in the timeliness is the lower volume of business for each company. As a result, companies are not tied to a central processing system, allowing them, as a whole, to be independent of any hardware and software problems such as FCIC has experienced. The Corporation increased efficiency and timeliness of 1983 claims payment by approximately 40-42 percent over the 1982 crop year, and is expecting a similar increase for the 1984 crop year based on continual training, certification and document processing update and system changes.

APPROPRIATIONS REQUIREMENTS

Question: The appropriation requirements of FCIC for any given year are directly related to the participation rates, cancellation rates, and premium income. For the past few years, FCIC has significantly overestimated participation rates and premium income. For example, FCIC projected that participation for crop year 1983 would represent 30 percent of all insurable acres, but actual participation was only 11 percent. Further, administrative and operating expenses are rising quickly. For example, administrative expenses increased from $38 million in 1980 to $173 million in 1982, and FCIC estimates they will increase to $474 million by 1984.

Given the low participation level, what steps is FCIC taking to increase participation and premium income?

Answer: The $474 million in administrative and operating expenses relates to a 30 percent participation rate and $680 million in premium.

The goal of the Corporation is to increase awareness and understanding of the Federal crop insurance program among farmers and agricultural groups, so that farmers can make informed decisions about risk management based on their own needs and desires.

The action that will do most to attract new customers, of course, is improving the quality of the product and service. We have been striving to do this. With the new IYC program, rates are down and coverages are up in almost every instance, making today's crop insurance a high value package. Additionally, operating improvements have substantially reduced the time it takes to verify an offer and pay a claim. We believe that these kind of internal efforts will improve the image of the Corporation and attract new producers into the program.

PROJECTIONS OF PARTICIPATION, CANCELLATION AND PREMIUM INCOME LEVELS

Question: Is FCIC taking steps to more realistically project future years' participation, cancellation, and premium income levels?

Answer: Yes. More emphasis is being placed on long-range strategic planning, analysis, trend projections, and forecasting by use of accepted statistical methods; we are presently updating the data base and validating vital basic information such as potential acreage.

We are developing a statistical reporting and management information system for reinsurance operations to coincide with FCIC systems.

Question: In 1981, FCIC began to shift sales and loss adjustment functions from the government work force to the private sector. In view of rising administrative costs, resulting from the change in delivery systems, has the Department undertaken a study to determine whether its current delivery system is cost effective for the government?

Answer: Informal studies have been made. The cost of the two major delivery systems compares favorably with the national average; start-up costs for reinsurance operations were high in 1981, but have leveled off and are showing a decline.

A recent review of the two systems indicates the reinsured company operations may be somewhat more efficient than master marketers.

PROGRAM EXPANSION

Question: Program expansion is a concern of many farmers. They wish to know about when new crops will be eligible for insurance in their area.

Does the Corporation have a formal plan or schedule so that it would be possible to determine when specific new crops can be expected?

Answer: Yes, FCIC's Board of Directors at their October 1983 meeting approved a plan of expansion for new crops. The following list reflects new commodity program expansion for 1984 and 1985:

NEW COMMODITY PROGRAM EXPANSION FOR 1984 AND 1985

NEW COMMODITY PROGRAMS FOR 1984

New Commodity Programs Developed by FCIC

The Corporation will be instituting four (4) new commodity programs for 1984. They are as follows:

(1) Fresh Tomatoes
(2) Fresh Peppers
(3) Popcorn
(4) Walnuts

New Commodity Programs Developed by Private Sector

(1) Cranberries
(2) Extra Long Staple Cotton

NEW COMMODITY PROGRAMS FOR 1985

First Priority for FCIC Development

(1) Extra Long Staple Cotton and Malting Barley
(2) Fresh Vegetables--Sweet Corn (Limited Initially to Florida)
(3) Fruit Crops--Prunes

First Priority for Private Sector Development

(1) Hawaiian programs for Sugarcane, Pineapples, Papayas and Macadamia Nuts
(2) Vegetables--Onions (pilot program in limited area)
(3) Nursery Crops--Flowers and Foliage Plants

INSURANCE COVERAGE FOR FARM ORGANIZATIONS

Question: How does a group or farm organization go about obtaining coverage for their particular crops. Who do they contact? How long is the process before coverage begins?

Answer: A group or farm organization may request coverage for a specific crop by writing the Manager of FCIC. Assuming there is sufficient interest and sales potential for the insurance protection, usually one to two years is necessary to get approval, develop policy provisions, and obtain actuarial data to establish sound rates and coverages.

ACCEPTANCE BY PRODUCERS OF EXPANDED CROP PROGRAMS

Question: To what extent have recently expanded crop programs been accepted by producers?

Answer: Much of the expansion activity for crop years 1981-1983 was related to increasing the availability of insurance for traditional crops such as wheat, corn, oats, barley, cotton, tobacco, and others for which programs previously were established. Since insurance had been available in the major producing areas, this phase of the expansion activity resulted in limited new sales. This is to be expected since the relatively small acreage in some counties may not be grown for commercial purposes. However, this expansion was necessary to comply with the intent of the Congress to replace disaster programs with crop insurance.

More recent expansion activities have focused on new crops and expansion into other major production areas for non-traditional crops. Acceptance has varied, with the fresh market tomato and pepper policies achieving the greatest success. It is too early to judge the ultimate success of the new contracts. Many of the new contracts (cranberries, popcorn, pima cotton, and walnuts) are new for the 1984 crop year.

INFORMING FARMERS ABOUT CROP INSURANCE

Question: Besides using paid advertising, what does the Corporation do to inform farmers about the crop insurance program?

Answer: The Corporation publishes and distributes information brochures to farmers in the U.S. outlining in detail the 34 crop policy provisions and benefits to the producer. In addition, cassette tapes and slide presentations are distributed to field operations and the private sector to be used as an information source at public meetings. Management of the Corporation has accepted speaking engagements throughout the U.S. from farm groups, farm management associations, banking institutions, production credit associations and other interested agricultural related groups. The personal appearances have been widely accepted and instrumental in heightening the awareness in rural America of the benefits of FCIC as a good farm management tool. A professional agricultural writer under contract with the Corporation has submitted numerous articles to leading publications on key agricultural commodities insured by the FCIC.

Question: Is the thrust of this to benefit all writers or just FCIC?

Answer: The thrust is solely to inform producers of the Crop Insurance program as a protection of their resources when their crops are severely damaged by causes specified in the Crop Insurance contract.

ADVERTISING COSTS

Question: How much was spent on advertising last year?

Answer: The advertising cost in 1983 was $5.2 million. This amount includes all education, information and promotional services. The amount budgeted has been reduced in 1984 to approximately $4 million, and it is currently anticipated that F.Y. 1984 actual expenditures will be $2.5 to $3 million.

PILOT PROGRAM ON SPECIALTY CROPS IN FLORIDA

Question: I understand that there is a pilot program in Florida to insure speciality crops such as tomatoes and peppers and that this program has been well received with somewhere around 85% participation. Do you have plans to expand this program? When and where?

Answer: Extraordinarily heavy losses were experienced the first year of this pilot program. As a result, the Board of Directors has directed that the program be continued for one more year on a pilot basis to permit adequate evaluation of its effectiveness in meeting the producers' needs.

COTTON AND RICE PROGRAMS

Question: What are the preliminary indications of the farmers reaction to the cotton and rice programs?

Answer: Rice producers have generally accepted the new Actual Production History approach to yield guarantees. Although 1984 participation figures are not yet in, we do not expect any dramatic change from the previous year due to the new program.

Cotton farmers generally reacted negatively when the new program was introduced. However, much of the initial criticism was neutralized when the terms of the new program were explained, and the number of complaints received from cotton farmers has dropped off considerably.

Our Field Actuarial Offices (FAO's) have reported a remarkably high degree of interest in the program among noninsureds. One office indicated that it had as many as 2,000 requests for a yield determination awaiting action at one time. Other offices report similar interest, but in smaller numbers.

Final participation levels will depend on the number of cancellations among insureds and the number of new producers who sign up. The Valdosta, Georgia FAO projected that overall participation in cotton will rise sharply in that region. The other offices report that participation will probably remain the same or drop slightly.

We fully expect that as more farmers become familiar with the terms of the new cotton and rice offers, they will be more likely to consider it as a viable risk management option.

SUCCESS OF COTTON AND RICE PROGRAM

Question: What is being done to determine the success of the cotton and rice programs?

Answer: The Cotton and Rice Coverage Plan (CRCP) is being carefully evaluated in order to "work out the bugs" and insure that it is responsive to the needs of cotton and rice farmers.

FCIC's Board of Directors received a report on CRCP at its March meeting. Additionally, FCIC management met with representatives of reinsured companies to receive recommendations for the upcoming crop year as well as to hear a report on how the program is working so far.

An evaluation team on CRCP is now being assembled with the purpose of reviewing all recommendations for change so that the Board of Directors may consider them in time for the 1985 crop year.

PAYMENT-IN-KIND (PIK)

Question: The PIK program which was instituted last year took 82 million acres of land out of production. This obviously resulted in less land available for insurance coverage.

Is this one of the reasons for the participation level being below that expected by the Congress?

Answer: The PIK program unquestionably reduced incentives to purchase crop insurance for the crops involved in 1983. The certainty of income during 1983/84 for PIK participants (the PIK commodities and set-aside payments) made the overall financial environment of producers appear less risky. Many regarded the probability of suffering the production conditions of 1983 as negligible. Thus, the combination of reduced acres in crops and the psychological impact of the program undoubtedly had an adverse impact on participation in 1983.

STATE PARTICIPATION

Question: The Federal Crop Insurance Act authorizes FCIC to enter into agreements with state government whereby the states may pay an additional premium subsidy to reduce the cost of crop insurance paid by farmers. Although this provision has existed since the 1980 legislation, it is my understanding that no state government is providing premium subsidies to farmers.

What steps is FCIC taking to encourage states to participate in the crop insurance program?

Answer: In accordance with the Federal Crop Insurance Act of 1980, which authorized state governments to participate in the newly expanded Federal Crop Insurance Program by providing additional subsidies to the premium rates paid by farmers, the Federal Crop Insurance Corporation has supported implementation of such programs.

In July 1983, I addressed the National Conference of State Legislatures and provided information kits regarding the Federal Crop Insurance program and indicated our willingness to assist in any way appropriate regarding state participation.

I also briefed the following groups regarding Federal Crop Insurance relating to the introduction of legislation for state contributions toward the premium for Federal Crop Insurance:

-- State Senate Agriculture Committee	Texas	Senate Bill 608 March 9, 1983
-- State Assembly Agriculture Comm.	Wisconsin	Assembly Bill 777 November 16, 1983
-- State Senate Resources Committee	Alaska	Senate Bill 336 January 11, 1984

Other states that have requested further information and assistance include Pennsylvania, Alabama, Indiana, and Kansas.

Our Congressional and Public Affairs Office will be sending out updated information to National Association of State Directors of Agriculture officials and chairpersons of the Agriculture Committees of both states' houses within the next 60 days.

Also, I will again address the National Conference of State Legislatures in July 1984.

CROP INSURANCE

Question: What factors caused a decline in business for 1983?

Answer: U. S. total decline in acres planted for harvest due to depressed market (demand and price), economic stress and USDA acreage reduction programs contributed to the decline in FCIC business for 1983.

IMPROVING CROP INSURANCE

Question: What has the Corporation done to improve crop insurance to make it more appealing to better producers?

Answer: The most important and far reaching change in the crop insurance program has been the introduction of the optional Individual Yield Coverage (IYC) program and the move towards an Actual Production History (APH) program in future years. Both of these programs permit farmers to obtain yield guarantees based on their individual production capabilities.

One of the primary reasons many higher yielding farmers have not participated in crop insurance is that the yield guarantees that were available under the Area Coverage Plan were not high enough. Many farmers concluded that under the Area Coverage Plan, they would practically have to be wiped out before they would qualilfy for an indemnity. And in many cases, they were right.

Under IYC and APH, farmers can obtain guarantees based on their own production histories. Thus, the inherent inequities in the Area Coverage Plan are eliminated, and better farmers are no longer penalized as a result of lower county yield averages.

MAKING CROP INSURANCE APPEALING TO MIDDLE GROUP OF FARMERS

Question: What has the Corporation done to make crop insurance appealing to the middle group of farmers, who may well be the group that needs it most?

Answer: We believe that the IYC and APH concept will demonstrate that crop insurance is a high value package and inherently fair to all producers, and force those in the middle spectrum to reevaluate their coverage elections and encourage them into more realistic coverage categories.

FmHA EMERGENCY LOAN PROGRAM REQUIRING CROP INSURANCE

Question: There has been some discussion that the FmHA Emergency Loan Program require crop insurance. What is the status of this procedure?

Answer: The Farmer's Home Administration (FmHA) and FCIC are currently encouraging producers who borrow for production expenses to consider crop insurance as a management tool for their cash flow protection. On an individual basis, FmHA is presently requiring borrowers who have very low equity to obtain crop insurance for the protection of the loan. FCIC supports the use of crop insurance by borrowers who depend on a stable income for the repayment of a production loan. We believe that this management tool, properly explained, will increase sales of crop insurance policies in all commodities covered by FCIC.

CORPORATION'S RATE-MAKING PROCESS

Question: What has the Corporation done to modernize its rate making process?

Answer: In 1983 the Corporation contracted with an Actuarial Consulting Firm, Milliman and Robertson, Inc., to research the present rate making methods and recommend necessary changes. The Actuarial Division will begin incorporating and implementing their recommendations for the 1985 crop year.

PRIVATE COMPANIES (REINSURED)

Question: There has been criticism that this program is a good deal for private industry.

How many private companies are now participating in the crop insurance program? If this is the good deal, why are so few companies involved?

Answer: One reason may be the large start-up cost involved to enter the program. There are 46 reinsurance agreements for the 1984 crop year. There were six reinsured companies which terminated their agreements after the 1983 crop year, and an additional six new companies signed agreements.

Question: Do you have any current estimates how the expense allowance provided to private companies compares with FCIC's cost of doing business?

Answer: The expense reimbursement to reinsured companies was based on FCIC's 1979 and prior years' cost of doing business. The reinsured companies incur many expenses which otherwise would be incurred by FCIC. These expenses include, but are not limited to, processing of policies, bad debt expense for uncollected premiums, training of personnel, and supplying all necessary materials. To make this comparison, it is necessary to allocate FCIC's expenses. One review indicated that reinsured company business may have a somewhat lower expense ratio than FCIC.

Question: How many private companies are currently participating in the crop insurance program? Does the number of private companies currently participating in crop insurance represent an increase from prior years?

Answer: There will be 46 active reinsurance agreements for 1984. There were also 46 reinsurance agreements in the 1983 crop year, although two of these were inactive.

FINANCIALLY STABLE PRIVATE COMPANIES

Question: What does the Corporation do to assure that it is dealing with financially stable private companies?

Answer: The Corporation has published financial standards for reinsured companies. To summarize these standards, the company must be in the acceptable range on at least eight of the 11 National Association of Insurance Commissioners' (NAIC) ratio tests. If this standard is not met, then additional reviews are conducted which include but are not limited to "Bests Insurance Reports" and "Surety Companies Acceptable on Federal Bonds".

AUDITING FINANCIAL TRANSACTIONS OF PRIVATE COMPANIES

Question: To what extent does the Corporation audit financial transactions between the Corporation and private insurance companies covered under the reinsurance agreement?

Answer: The Corporation's audit program for fiscal year 1984 identified nine reinsured companies to be audited, or 20 percent of the total number of reinsured companies, with audit coverage of approximately $34,066,895, or 32 percent of the $107,000,000 total premium dollars estimated to be collected by the reinsured companies for crop year 1983. Five audits have been completed thus far.

Audits have been scheduled at all 44 of the active reinsured companies based on a five-year rotation cycle.

These audits are based on generally accepted auditing standards utilizing both public accounting programs and procedures and the National Association of Insurance Commissioners Examiners' Handbook. Audit tests, based on a detailed audit work program, and performed by individuals with an audit background, include on a test-check basis, a review of the reinsured company's financial position, compliance with FCIC procedures, and an evaluation of the accuracy of financial transactions and the effectiveness of control exercised in recording reinsurance transactions.

ADMINISTRATIVE REIMBURSEMENTS TO REINSURED COMPANIES

Question: What is the Corporation doing about assuring that administrative reimbursement to private insurance companies is appropriate?

Answer: The Corporation is currently in the process of contracting with an actuarial consultant or firm to analyze the reinsurance agreement in its entirety, including the appropriateness of the expense reimbursement provision.

STAFF REDUCTION DUE TO CONTRACTING WITH PRIVATE SECTOR

Question: To what extent has the Corporation been able to reduce its staff since work has been contracted out to the private sector?

Answer: The Corporation has been able to reduce the staff hours expended by federal employees in the areas of marketing crop insurance policies and in adjusting crop losses rather substantially since the end of Fiscal Year 1982. We are shifting the resources saved in those areas to other critical needs created by the expanded crop insurance program. Improvement in areas such as quality assurance, data automation services, training programs for private agents and loss adjustment contractors, as well as expanded administrative functions will continue to demand a larger share of our resources to ensure acceptable levels of service and oversight of the program. We are still in a resource reprogramming phase, one which will not end until F.Y. 1985, at the earliest.

PROJECTED PREMIUM LEVELS FOR REINSURED COMPANIES

Question: What premium level is projected for private companies for crop year 1985?

Answer: The Corporation is projecting premium of $341 million for the reinsured companies for crop year 1985.

Question: Does this represent an increase over prior years?

Answer: Yes. Premium for crop year 1983 for the reinsured companies was approximately $107 million. We are estimating $250 million for crop year 1984.

Question: How does this compare with other delivery methods used?

Answer: Premium through the master marketers was over $187 million for crop year 1983. Estimates are $250 million for crop year 1984 and $279 million for crop year 1985.

ENCOURAGING ADDITIONAL COMPANIES TO WRITE CROP INSURANCE

Question: What is the Corporation doing to encourage additional companies to begin writing crop insurance?

Answer: The Corporation has an aggressive program to encourage General Sales and Service agencies to write crop insurance. The Reinsurance Division has also actively promoted increased involvement in crop insurance by established companies.

BASIS FOR ALLOWANCES PAID TO REINSURED COMPANIES

Question: FCIC provides reinsured companies an administrative and operating allowance of 27 percent of the company's book premium for new business and 22 percent of book premium for carryover business. In addition, for claims adjustment work, FCIC pays the company 4 percent of book premium and 3 percent of total indemnities paid on the company's policies.

What is the basis for these allowances?

Answer: The expense reimbursement rate to reinsured companies was based on FCIC 1979 expenses relative to premiums. This expense reimbursement schedule has been unchanged since the initial 1981 Reinsurance Agreement.

Question: Did FCIC undertake a detailed cost study to determine whether these rates are equitable to the Federal government?

Answer: Yes, an analysis was undertaken and, at the time, the rates were considered equitable. However, we are in the process of contracting with a private firm for the purpose of reviewing the reinsurance agreement in its entirety. This firm's study will include a review of the reimbursement allowances to the reinsured companies in order to determine if the amounts are equitable for both the companies and the U.S. Government.

FCIC vs. PRIVATE COMPANIES

Question: What percent of the business written in 1983 was on FCIC policies and what percent by private companies (reinsured)?

Answer: For crop year 1983, 64 percent of the business was written on FCIC paper, and 36 percent was written on reinsured company paper.

Question: What are your estimates of 1984 between FCIC and private companies?

Answer: The Corporation estimates that the reinsured companies and FCIC will each handle $250 million in premium for crop year 1984.

Question: How does the current amount of FCIC business compare to 1982?

Answer: The current amount of FCIC premium is $187.7 million. This compares to $321.1 million for crop year 1982. The major portion of this decline is due to acreage removed from production under the PIK program.

STAFF RESOURCES

Question: How do the staff resources presently committed to the sales service and claims of direct policies compare to 1982?

Answer: As discussed in a previous answer, the number of staff hours expended by federal employees in direct sales, service and claims activity have decreased dramatically due to the contracting out of loss adjustment and the actual selling of policies. There has not been a complete savings of the staff resources formerly dedicated to these areas, however, as FCIC has been required to continue to supervise loss adjusters, provide formal training to agents and adjusters, expand its paper processing function, and establish on-going quality assurance efforts to ensure proper program delivery. Many of these efforts are not yet complete. The net staff savings of the operational changes made in 1982 will be made when they are fully implemented. The Corporation is now involved in contract administration and program evaluation, roles it has not had to play in the past. This learning process, continued expansion, and the improvement of our administrative systems will require using a large share of the resources formerly expended in the direct sales and service of our policies.

TOTAL DELIVERY OF CROP INSURANCE THROUGH PRIVATE COMPANIES

Question: Do you foresee the possibility that the total delivery of crop insurance will be through the private companies?

Answer: We support a dual private sector insurance delivery system and do not foresee an exclusive delivery through reinsured companies. We do expect, however, a change in the percentage of business directed through the reinsured companies and the master marketers. Reinsurance business for the Corporation is projected to increase steadily in the next few years as total premium income to the Corporation increases. It is also expected that insurance premiums generated through Federal paper by the master marketers will increase during this same period of time.

Question: Would this likely increase or decrease the cost to the government?

Answer: As long as total premium is projected to increase, the total cost of the Federal Crop Insurance program will increase.

Question: Since the private companies are now writing a significant portion of the business, will FCIC drop the term "FCIC" and use a broad, generic term when referring to the crop insurance program, thus being of service to all delivery systems? When?

Answer: The term "FCIC" will be used as long as policies are sold on Federal paper.

MANDATORY INDIVIDUAL YIELD COVERAGE (IYC)

Question: Many farmers are concerned about the talk of mandatory IYC (Individual Yield Coverage). There is concern this would work a hardship on those farmers without adequate records.

Has the Corporation considered providing more incentive and transition time to bring about IYC?

Answer: An area of concern in moving to an Actual Production History (APH) program is the lack of adequate production records on many American farms. Thus, any program basing yield guarantees on a 10-year historical base will have to take into account those with little or no production records.

We are statutorily required to offer crop insurance to all farmers; we cannot, therefore, impose a records requirement on farmers to be eligible for insurance.

Therefore, any APH program that is introduced will necessarily have a "transition" period for those with less than adequate records. During this time, the APH Program may well resemble the existing Area Coverage Plan, but the fundamental difference will be that from that point forward, records will be required to build the appropriate data base. Insurance will not be denied, however, to those with less than adequate records.

With respect to incentive, the greatest incentive in the APH program is the opportunity to obtain higher yield guarantees. Many high yielding farmers have not considered crop insurance because yield guarantees, based on the average production in the county, fell far below their production expectations. The APH program will allow a farmer to obtain a guarantee that relates to his production capability and, over time, a rate that more closely relates to the actual risk on his farm.

SCHEDULE TO MOVE AHEAD WITH MANDATORY IYC

Question: Does it plan to go ahead with mandatory IYC? What is the schedule?

Answer: The Board of Directors has decided to convert all crop insurance programs from an Area Coverage Plan to an Actual Production History (APH) plan as soon as feasible. Cotton and rice were converted to APH for the 1984 crop year. Tobacco, peanuts, corn, grain sorghum and forage production have been targeted for conversion in 1985. Although work is progressing on developing APH programs for these five crops, it is premature to predict whether or not the programs will be ready for 1985 implementation.

The schedule for implementation for other crops, however, has not been established and will depend on many factors, including the availability of FCIC resources to devote to the conversion process.

FINANCIAL INSTITUTIONS

Question: What efforts have been taken by FCIC to educate the financial institutions to the use of risk management through crop insurance?

Answer: A concerted effort to better inform financial institutions of the use of Crop Insurance as a management tool was undertaken late in the fall of 1983. Information packets, personal appearances and calls and letters explaining the benefits of the Crop Insurance program were distributed to major financial institutions dealing in agriculture credit. We consider this an important segment of the agricultural community in the use of Crop Insurance as an additional tool to their management of credit requirements pertaining to their customers.

Question: Are financial institutions encouraging the use of crop insurance to their loan customers?

Answer: The degree of encouragement by financial institutions is difficult to measure with regard to their customer relations. We are aware of a number of financial institutions who are suggesting their customers consider Crop Insurance as a tool to assure proper cash flow in case of a major crop disaster. In addition, auditors of agricultural accounts in respondent banks are discussing crop insurance with regard to protection of their loan portfolio.

ACTUARIAL STUDY

Question: What were the results of a recent actuarial study and what changes has the Corporation implemented as a result of that study?

Answer: The actuarial study was performed by Milliman and Robertson, Inc., consulting actuaries located in Pasadena, California. The consultants reviewed all aspects of the FCIC's actuarial structure. Several conclusions and recommendations were made. Major ones concluded:

1. The current ratemaking system is reasonable for the conditions prior to the 1980 Act. The underlying theory is consistent with that commonly used for most classes of insurance. Conditions since 1980 require a revision in the system.

2. Many aspects of the ratemaking and rating formulae already were being adequately addressed by the FCIC Actuarial Division, and were excluded from the reports.

3. An explicit definition of "catastrophic loss" must be developed.

4. Credibility formulae must be developed.

5. All available past history should be used in the ratemaking process.

6. The mechanical aspects of the ratemaking process must be automated.

7. The delay in compilation of updated loss experience may be a greater obstacle to rate adequacy than any of the technical considerations of rate promulgation.

8. The differentials in the rates charged for the various coverage levels should be evaluated.

9. The minimum components of an actuarial data base were identified.

This is far from a complete list of the recommendations of the study. Substantial work now is required to implement these recommendations.

No changes have been implemented, although preliminary actions are underway. Directors of the Field Actuarial Offices have been asked to review the report and provide their recommendations for action. The private insurance industry, which will be involved in providing statistics, also is reviewing the study. We expect to achieve a consensus on a plan of action in the near future.

COMPUTER PROBLEMS

Question: What has the Corporation done to remedy its computer processing problems?

Answer: Hardware and software deficiencies at the Kansas City Computer Center were identified and an action plan was initiated to upgrade processing capability and reliability. Planned improvements and current status are shown below:

1. Convert MSU-500 disk drives to MSU-501's.
   Status: Completed.

2. Phase release 4JS-3 of GCOS-3 operating system into production.
   Status: Completed.

3. Upgrade Honeywell 66/80 processors to DPS-8/70.
   Status: Completed.

4. Install additional input/output multiplexer.
   Status: Completed.

5. Install third string of MSU-501 disk drives.
   Status: Completed.

6. Install GCOS-8 operating system.
   Status: Interagency team is controlling a planned migration, preparing benchmarks and testing. Targeted for completion 4-23-84.

7. Install Datanet 8 front-end processor.
   Status: Equipment received, pending installation.

8. Install clean power switching equipment.
   Status: Completed.

9. Install 6250 BPI tape drives.
   Status: Completed.

10. Install additional DPS-8/70 processor.
    Status: Targeted for completion 7/8/84.

Problems at the Kansas City Computer Center declined dramatically following these systems improvements.

Additional improvements:

1. A Honeywell systems analyst has been provided to the computer center for on-site support. A second analyst has been requested.

2. Honeywell specialists conducted a site review and audit of the Kansas City Computer Center.

3. KCCC initiated weekly meetings with system users at the technical level and at the management level for joint resolution of concerns.

4. The Federal Crop Insurance Corporation, Data Automation Division implemented configuration management procedures for coordination and control of program changes.

5. Reorganization of FCIC's Data Automation Division is underway. This will provide additional management and technical resources, restructured into an environment of efficiency and control.

LOSS RATIO

Question: In 20 of the 36 years from 1948 to 1983, FCIC has experienced an annual underwriting loss where the loss ratio (relationship of indemnities paid to premiums received) was more than 1.0. Through crop year 1982, FCIC had a cumulative loss ratio of 1.15 and an underwriting loss in excess of $334 million.

In view of FCIC's loss ratio experience, what steps is FCIC taking to make the insurance program actuarially sound?

Answer: The existing rates are based upon the assumption that they are adequate and equitable, and represent the natural disaster risks in growing the crops. Although the present accumulative loss ratio for all crops is 1.15 it represents only 36 years. Wheat is the only crop that has been insured for this period of time with many crops added in the past 20 years. The catastrophic losses caused by drought of the past few years greatly affected the loss ratio. In fact, as recent as 1979, the loss ratio for all crops was less than 1.00.

Because of the recent loss experience and concern of many people the Corporation sought a review of its rate making methods. A contract was signed with a reputable actuarial consulting firm to review our methodology and make recommendations for improvement. This study conducted by Milliman and Robertson, Inc., has been completed and further refinement of our rating procedure will be implemented with the 1985 and 1986 crop years. Our insurance program will incorporate the latest in actuarial methodology.

FCIC'S CONGRESSIONAL DIRECTIVE REPORTS

Question: FCIC based its crop year 1984 premium estimates on the amount of its F.Y. 1984 appropriated funds. Can FCIC give us a better estimate of expected premium and participation rate and a description of the methodology used to obtain that estimate.

Answer: At this time it would be difficult for us to make accurate predictions of the total premium level for crop year 1984. The results of the spring sales will not be known until June or

July. At that time the Corporation will have enough data available to provide total premium amounts for the 1984 crop year.

Question: FCIC has not been reporting the same information for master marketers and reinsured companies on its monthly Congressional Directives Reports. Can FCIC obtain identical information from master marketers and reinsured companies to provide the committee the necessary information for making appropriation decisions on the program.

Answer: The Corporation is currently in the process of developing a statistical reporting and management information system for reinsurance operations to coincide with FCIC systems.

QUESTIONS SUBMITTED BY SENATOR MCCLURE

IMPROVING SHORTFALLS AND PROBLEMS

Question: Mr. Sprague, recently you stopped by my office to discuss current issue with my staff. Unfortunately I was not able to sit in on the meeting but I would like to take a few minutes of your time to ask you some questions in addition to those which my staff attempted to have answered.

Expectations for crop insurance have been high, perhaps unreasonably so. The program has grown extremely quickly and has come under some criticism. Some of the problems may have been worked out. I would like to know what has been done to improve FCIC in the past year and what the Corporation is planning to do to improve the identified shortfalls and problems.

Answer: Significant progress has been made in the past year in alleviating problems of the past and also in making the insurance product more attractive to more producers.

Perhaps the most important and far-reaching change is the decision to base yield guarantees on each producer's actual production history.

One of the primary reasons identified by farmers for not buying crop insurance is that the coverage levels offered did not reflect their production expectations. To address this concern, FCIC's Board of Directors approved a program under which yield guarantees are based on actual production history.

This program will insure that guarantees are equated with productivity. It should attract higher-yielding producers into the program and reverse the chronic problem of adverse selection.

Although the Actual Production History (APH) program has been implemented only in cotton and rice so far, it is the intent of FCIC to provide this option to all producers as quickly as feasible.

Other improvements made during the past year include the following:

1. New programs have been implemented for citrus trees, fresh tomatoes and green peppers, hybrid seed corn, cranberries, walnuts and popcorn.

2. Crop insurance coverage is now available on all land formerly covered by the disaster payments program, effectively eliminating that program. This removes a major disincentive for many farmers to enroll in crop insurance and represents a significant savings in taxpaper dollars.

3. Optional Individual Yield Coverage (IYC) procedure has been streamlined, making it easier for producers to qualify for higher guarantees at no increase in cost.

4. Intensive training has been completed for ASCS county personnel who are responsible for completing IYC forms. This should reduce the error rate in calculating IYC yield guarantees and remove a major impediment to expanded IYC participation.

5. A number of crop contracts have been rewritten and improved, using an "easy read" format. Some of the revisions include eliminating the no-harvest penalty, adding replant provisions and quality adjustments, and increasing stage guarantees to recognize current production costs.

6. FCIC's operating procedures have been updated to increase our operating capability as well as to improve service to insureds. For example, claims processing time has been substantially reduced.

7. Procedures have been adopted to allow Multiple-Peril Crop Insurance (MPCI) companies to develop new crop insurance programs, subject to review and approval for actuarial sufficiency by FCIC. This should lead to the establishment of programs in areas of highest participation potential and interest, and free-up FCIC resources that could be devoted to improving customer service.

8. Cooperative working relationships with our sister agencies at USDA, including the Cooperative Extension Service (CES), the Agricultural Stabilization and Conservation Service (ASCS) and the Farmers Home Administration (FmHA), have been established to promote crop insurance as a viable risk management option to their clientele.

It is the intent of FCIC management to continue working with producers, commodity groups and associations, reinsured and master marketing companies, and the Congress, to identify additional areas for improvement.

REASONS FOR POLICYHOLDER CANCELLATIONS

Question: What has been done to implement a way to identify reasons why sales are not increasing and why significant percentages of participating farmers each year cancel for the following year?

Answer: FCIC conducted a survey to determine the reasons for policyholder cancellations. The report, on the basis of 551 random interviews, indicated that 61 percent of the cancellations were due to the following four reasons, in order of priority:

1. Coverages were too low.
2. Policyholders were no longer involved in farming.
3. There were excessive transfers of contracts among agents and companies.
4. Insurance costs too much.

FCIC's advertising contractor conducts advertising awareness surveys following each advertising campaign. A survey taken on the basis of the Fall advertising campaign was released in December.

Listed in order of importance, the following factors were cited by producers as leading to their decision to not buy crop insurance:

1. Too expensive.
2. Cheaper to take risk.
3. Not interested in crop insurance.
4. Dissatisfied with previous experience.
5. Low frequency of disaster losses.
6. Cost too high for coverage.
7. Can do without expense.
8. Take my own chances.
9. Wouldn't pay enough in event of loss.
10. No real risk.

Additionally, FCIC has approved a multi-state study being conducted by the Cooperative Extension Service (CES) through its university farm management program to evaluate crop insurance as a risk reduction tool and make recommendations as to how the product can be designed to better suit the needs of agricultural producers. The study will look at alternative yield probabilities and assess their impact on the decision to buy or not buy crop insurance.

A final report will not be available until Fall, 1984.

PROCEDURES FOR TRACKING SALES

Question: Have you implemented procedures to keep track of sales during the sales season?

Answer: Yes. As of March 23, 1984, new sales representing 1,046,710 net acres and $9,792,497 in premium have been sold on FCIC paper. For reinsurance operations, as of March 9, 1984, new sales representing 915,000 net acres and $5,000,000 in premium have been sold.

CONTINGENT LIABILITY

Question: Do you know your contingent liability for the present sales for 1984?

Answer: Projected liability for new business on FCIC paper is $160,117,282, and for reinsurance the liability is $79,150,000.

STUDY OR ANALYSIS OF AMOUNTS PAID TO REINSURED COMPANIES AND MASTER MARKETERS

Question: Has FCIC put into place an analysis or study to analyze payments of agents commissions, loss adjustment costs, and expenses of reinsured companies and master marketers to determine if levels are appropriate?

Answer: Senator McClure, since becoming Manager of the Federal Crop Insurance Corporation in April of 1982, I have focused my efforts, and the efforts of my staff, on correcting previously identified deficiencies in the Corporation's operations.

Additionally, we have been systematically analyzing each element of our operations with a view toward further improving timeliness and efficiency of operations.

The Corporation is currently in the process of contracting with an actuarial consultant or firm to analyze the reinsurance agreement in its entirety including the appropriateness of the expense reimbursement provision. The master marketing agreement is being revised for 1985. The appropriateness of the administrative expense portion of the agreement is also being examined.

An ongoing study of the quality and costs of loss adjustment was initiated in 1982. Initial findings resulted in a revision of the basis for compensation of loss adjusters. This revision resulted in a reduction of per unit costs by approximately $50.00. Data on the costs of loss adjustment by crop by region are currently being collected and analyzed. Further savings to the Corporation are anticipated.

REINSURED COMPANIES SHARING IN GAIN OR LOSS

Question: Has FCIC changed the practice of allowing reinsured companies to enjoy a gain while a loss has occurred and give up the Corporation's share of a gain when it exists?

Answer: As noted above, an in-depth analysis of the current reinsurance agreement will be undertaken in the near future. Recommendations for improvements in the gain/loss structure and the reimbursement for loss adjustment expenses will be a major focus of that study.

METHODS USED TO DETERMINE LOSS ADJUSTMENT PAYMENTS TO REINSURED COMPANIES

Question: Has the Corporation re-studied the decision to base loss adjustment payments to reinsured companies on a percentage of indemnities plus a percentage of premiums to determine if the method used for adjusting losses of its own policies is more appropriate?

Answer: The Corporation will be contracting with an actuarial firm to study the entire reinsurance agreement, including reimbursement amounts to the reinsured companies for loss adjustment work.

BOARD REQUIREMENT FOR DETAILED ANALYSIS ON MAJOR DECISIONS

Question: Does the FCIC Board of Directors require management to provide detailed analysis on a timely basis when major decisions are required?

Answer: Analyses of major policy decisons are required by the Board of Directors.

FCIC SEEKING ADVICE FROM REINSURED COMPANIES AND MASTER MARKETERS

Question: Does FCIC seek advice on a systematic basis from the reinsured companies or master marketers? If not, why not?

Answer: FCIC is soliciting advice from representatives of both delivery systems to a far greater degree than at any previous time. There is still room for improvement, however, and to this end a committee of such representatives, plus those from producer groups as appropriate, is in the process of being established.

CORRECTING DEFICIENCIES IN ACTUARIAL STRUCTURES

Question: Has the FCIC been able to correct deficiencies in the actuarial structures created by the rapid expansion of insurance offerings in new areas and on new crops?

Answer: The Field Actuarial Offices review and evaluate approximately 20 percent of the county actuarial structures each year and correct any deficiencies.

UPDATING COUNTY PROGRAMS

Question: Have county crop programs been updated to reflect the latest crop yields and losses?

Answer: About one-third of the county crop program coverages were updated for the 1985 crop year using the latest county yield data. The county crop rates were increased. An actuarial consultant firm, Milliman and Robertson, Inc., has evaluated FCIC's ratemaking formula and procedures. FCIC plans to implement many of their recommendations as soon as possible.

REEVALUATION OF COUNTY AREA CLASSIFICATIONS

Question: Have county area classifications been reevaluated? If not, when do you expect this to be finished?

Answer: We started replacing the area plan or area classification structures with an Actual Production History Plan for cotton and rice for the 1984 crop year. Corn, forage production, grain sorghum, peanuts and tobacco coverages are scheduled to be based on actual production in the 1985 crop year. The coverage for the other crops is scheduled for implementation as soon as feasible.

In some of the new county programs, little or no data is available. In such cases, data is used from an adjoining county or groups of counties to establish the crop programs.

SHORTCUTS IN DEVELOPING NEW COUNTY CROP PROGRAMS

Question: Did FCIC take shortcuts in developing the insurance offers for new county crop programs?

Answer: All program expansion activities are undertaken in accordance with established guidelines and procedures to assure actuarial sufficiency and program integrity.

Under pressure to expand rapidly in the past, mistakes were made with respect to crops and areas designated for expansion. Experience has revealed that many of the areas in which new programs were offered failed to produce significant new business. Some areas failed to produce any new business at all.

As a result, FCIC is undertaking expansion much more cautiously than in the past, and is concentrating on crops and areas of high producer interest and potential.

Additionally, FCIC's Board of Directors has adopted a crop expansion priority list based on economic value, which is factored into any crop expansion proposal.

PRIVATE SECTOR BOARD MEMBER INVOLVEMENT IN CORPORATION POLICY DECISIONS

Question: Has FCIC changed its internal orientation toward management to enable the private members of the Board more knowledge of and involvement in the major questions confronting the Corporation?

Answer: Private sector members are fully advised and totally involved in all major policy decisions of the Corporation.

COST OF EXPANDED PROGRAM

Question: Is it true that if expected participation levels were reached (50% of all farmers) the program would cost twice the disaster program cost, which FCIC was designed to replace?

Answer: Participation measured by the Corporation is determined by dividing the total acres planted into the number of acres insured. Assuming that 50 percent of the acreage in support commodities previously eligible for disaster payments were insured, we would expect over the last nine years to collect premiums totaling about $4.2 billion net of subsidy, with an estimated payment to producers of approximately $7.3 billion dollars using the nine-year average loss ratio of 1.32. Thus, the cost to the Government over the nine-year period would have been about $3.1 billion, most of which occurred in crop years 1980, 1982, and 1983.

The cost of the disaster program during the previous nine years was approximately $440,000,000 per year, for a total of more than 4 billion dollars. We fully expect the crop insurance program that replaced the disaster program contained in previous farm bills to be nearly self-supporting over a 10-year period even though heavy losses could occur as was experienced in 1983.

ENCOURAGING PRIVATE COMPANIES TO PARTICIPATE IN THE PROGRAM

Question: Does FCIC continue to encourage private insurance companies to participate while discouraging independent insurance agents and brokers?

Answer: It is not the policy of the Corporation to discourage participation by independent agents and brokers. In fact, the Corporation has devoted substantial resources to expanding participation of General Sales and Service Agencies. For example, 16 new agreements were signed with agencies in 1984. An estimated 3 million acres, with a premium of $25 million, will be insured by these new agencies. Agreements for an additional 10 companies are currently being processed for the 1985 crop year. In comparison, only 6 new reinsured companies were approved for 1984.

PAYMENTS TO PRIVATE COMPANIES

Question: Is it true that private companies are allowed to keep commissions as a portion of the premium they collect in addition to being reimbursed for administrative expenses by the FCIC?

Answer: No. All commissions of private companies are paid from the administrative expense reimbursement, not from premiums.

PAYMENTS TO COMPANIES COMPARED TO THEIR LIABILITY

Question: Are total payments to the companies three times greater than their maximum liability?

Answer: The reinsured companies have a maximum share of underwriting loss of 11.33 percent of premiums. However, the expense reimbursement and sharing in the ultimate net loss are costs that otherwise would have been borne totally by FCIC.

DETERMINING COMMISSIONS PAID TO COMPANIES

Question: How are the percentages of the commissions determined and by whom?

Answer: The expense reimbursement schedule was established based on 1979 and prior year FCIC expenses. We are now in the process of contracting with an actuarial firm to analyze the reinsurance agreement, including the expense reimbursement provision.

Question: What percentage over the liabilities are they?

Answer: The expense reimbursement is separated into two components--administrative expenses and loss adjustment expenses. The administrative expense reimbursement is a fixed percentage of written premium set at 22 percent of renewal premium and 27 percent of new premium. The loss adjustment expense is composed of a fixed 4 percent of premium and a variable component of 3 percent of indemnities paid. It is not possible to establish the exact relationship between underwriting loss and expense reimbursement because it varies by the amount of new business and the losses paid.

Question: Do you feel that this is too high? To low?

Answer: The management at the time the rates were established based the reimbursement rate at cost to the Corporation for the same services. We now believe that this compensation rate needs to be reviewed. The completion of this review, with consultation from accounting professionals, has been established as an objective for FCIC.

1984 BUSINESS COMPARED TO 1983

Question: Thus far this year, how much is business up over F.Y. 1983?

Answer: As of March 30, 1984, report:

FCIC paper for 1983	18,023,810	acres
FCIC paper for 1984	17,111,231	acres
FCIC net is down	912,579	acres

Multi-Peril Crop Insurance (MPCI)-private paper-for 1983 including raisins	9,942,000	acres
	X .85	(15% cancellation for 1984)
	8,450,700	
	X 1.333	(1/3 increase for 1984 new sales)
	11,264,783	MPCI for 1984 (projected)
	11,264,783	
	-9,942,000	
MPCI net is up	1,322,783	acres

MPCI	1,322,783	acres
FCIC	-912,579	acres
Total Net is up	418,599	acres

This figure can be expected to increase approximately 30% for 1984, as the 1983 PIK program reduced both FCIC and MPCI acreages insured by 30%.

An estimated 55.6 million acres are projected to be insured for 1984 in the 1985 budget request.

PARTICIPATION LEVELS IN IDAHO

Question: Please provide for me the levels of participation in all counties in Idaho, with a breakdown by crop covered for F.Y. 1981, F.Y. 1982, and F.Y. 1983.

Answer: The requested information is as follows:

	Fiscal Year 1981		
Idaho	Potential Acres	Insured Net Acres	Percent
Barley	714,831	68,265	10
Beans	129,505	18,139	14
Corn	39,400	269	1
Peas, Dry	85,826	16,845	20
Peas, Green	16,884	2,863	17
Potatoes	7,000	15	0
Sugar Beets	113,614	3,553	3
Wheat	1,107,550	139,540	13
Total	2,214,610	249,489	11

	Fiscal Year 1982		
	Potential Acres	Insured Net Acres	Percent
Idaho			
Barley	765,631	75,782	10
Beans	138,305	9,825	7
Corn	62,600	1,212	2
Peas, Dry	87,806	21,427	24
Peas, Green	16,884	2,302	14
Potatoes	7,000	0	0
Sugar Beets	109,254	3,314	3
Wheat	1,187,550	190,581	16
Total	2,375,030	304,443	13

	Fiscal Year 1983		
	Potential Acres	Insured Net Acres	Percent
Idaho			
Barley	769,131	59,317	8
Beans	129,505	3,819	3
Corn	84,800	855	1
Oats	3,900	66	2
Peas, Dry	87,806	13,304	15
Peas, Green	16,884	3,323	20
Potatoes	7,000	2,769	40
Sugar Beets	106,054	1,659	2
Wheat	1,187,550	110,510	9
Total	2,392,630	195,622	8

REQUIRING FmHA BORROWERS TO PURCHASE CROP INSURANCE

Question: Is there a movement to force Farmers Home Administration borrowers to purchase Federal Crop Insurance as a requirement for a loan? If so, does FCIC support this as a way to increase enrollment?

Answer: The Farmer's Home Administration (FmHA) and FCIC are currently encouraging producers who borrow for production expenses to consider crop insurance as a management tool for their cash flow protection. On an individual basis, FmHA is presently requiring borrowers who have very low equity to obtain crop insurance for the protection of the loan. FCIC supports the use of crop insurance by borrowers who depend on a stable income for the repayment of a production loan. We believe that this management tool, properly explained, will increase sales of crop insurance policies in all commodities covered by FCIC.

Question: If not, would FCIC support this as a way to increase enrollment, thus providing a data base for future expansion of the Corporation?

Answer: The Corporation believes the use of crop insurance as a risk management tool benefits both borrower and lender, providing a better product to the producers.

DECREASING TIME FOR PAYMENT OF CLAIMS

Question: What steps are you planning to take to decrease the amount of time it takes for payment of claims?

Answer: In 1983, a major effort was undertaken to improve the loss adjustment process in order to provide more timely payment of claims. A new document tracking system was installed. Areas of duplication and overlap in the processing cycle were eliminated. Although not entirely completed, these improvements have resulted in more timely payments.

Question: Please provide for me the percentages of those farmers who were paid within 30 days following a loss, those paid within 60 days, and those paid within 120 days for the last three years.

Answer: The information requested is as follows:

	30 days	60 days	120 days
1981	40%	63%	73%
1982	38%	64%	73%
1983	59%	75%	78%

The improvements mentioned above occurred during a year when the extent and severity of losses were the greatest in the Corporation's history. the relatively modest improvement for the period between 60 days and 120 days is primarily a result of: (1) late-filed or missing acreage reports which are required to process the claim; and (2) contested claims.

ADMINISTRATIVE COSTS INCREASING

Question: Why do the administrative costs of FCIC continue to increase?

Answer: Since most of the Corporation's administrative costs are directly related to projected premium levels, as long as premium increases, the total cost will increase.

FUNDS RETURNED TO TREASURY

Question: How much money was returned to the Treasury in F.Y. 1982 and F.Y. 1983 that was not used for administratave costs due to, as you stated, "lack of actual participation" in the program?

Answer: In fiscal year 1982, $5.3 million was returned to Treasury, and in fiscal year 1983, $104.9 million was returned.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

ASCS LOSS ADJUSTMENT REIMBURSEMENT

Question: How does the reimbursement rate paid to ASCS for loss adjustment compare with the rate paid reinsurance companies or private contractors?

Answer: The Federal Crop Insurance Corporation's loss adjustment function is performed by loss adjusters under contract with FCIC and reinsured companies except for a minimal amount performed by ASCS in a few New England states where ASCS sells and services contracts. The amount of loss adjustment performed by ASCS is covered under the ASCS/FCIC Memorandum of Understanding and is such an insignificant amount that it is not accounted for as a separate item to be counted under their workload system. It is captured in their line item "Field Visits for Appraisals or to Determine Loss, Damage, or Prevented Planting" and the actual for that line item for 1983 amounted to $26,750; therefore, with information not readily identifiable from the ASCS accounting records, it is impossible to compare rates of reimbursement to ASCS with that of reinsured companies or private contractors.

LOSS ADJUSTMENT COSTS

Question: What is the cost associated with FCIC employees directly performing loss adjustment vs. the reinsured companies or private contractors?

Answer: There are no longer any costs associated with FCIC employees directly performing loss adjustment. Loss adjustment inspections are made by private loss adjusters operating under a contract with FCIC for loss adjustment services.

RECEPTION AND REPRESENTATION EXPENSE

Question: Please describe why $1,000 is the "minimum amount necessary to provide adequate funding for reception and representation expense." What activities are these funds used to support and why is the increase necessary?

Answer: The reception and representation fund is used on such occasions when the Corporation hosts receptions or like events for foreign dignitaries or honored guests.

Such occurences are irregular. However, increasing costs required to adequately sponsor similar events make it necessary to adjust the fund limit upward. In fiscal year 1985, the biennial conference of Canadian Crop Insurance will be held, and an invitation to speak will likely be issued to the Manager of FCIC. On past such occasions, protocol dictated that the Manager of FCIC graciously host either a reception or dinner for the leadership of the Canadian Provincial program.

REIMBURSEMENT FOR PRIOR YEAR OBLIGATIONS

Question: The budget indicates that there is no request in fiscal year 1985 for reimbursement for agents' commission obligations and for loss adjustment costs incurred during prior years. Why is there no request for such funds and how were these costs covered in fiscal year 1984?

Answer: As provided by Section 516(a) of the Federal Crop Insurance Act of 1980, as amended, the Corporation may request reimbursement for agents' commission obligations and loss adjustment costs if the sums appropriated for administrative and operating expense were insufficient to cover these expenses.

In fiscal year 1983, the appropriated sums for administrative and operating expenses were sufficient to pay obligations for agents' commissions and loss adjustment; therefore, no expenses for these obligations were paid from premium income or other Corporation fund and there was no need for reimbursement of these obligations in fiscal year 1985.

In fiscal year 1984, the cost of agents' commission obligations and loss adjustment costs were completely funded within the appropriation for administrative and operating expenses.

COST OF ADVERTISING AND PUBLIC AWARENESS

Question: How much will be spent on advertising and public awareness activities in fiscal year 1984, and how much will be spent in fiscal year 1985?

Answer: The estimate for fiscal year 1984 was $4 million for advertising and public awareness; however, it is currently anticipated that fiscal year 1984 actual expenditures will be $2.5 to $3 million. It is estimated that approximately $4 million will be needed for these activities in fiscal year 1985.

ASSUMED INCREASED PREMIUMS FOR FISCAL YEAR 1984

Question: Did any of the assumed increased premiums for fiscal year 1984 result from an assumed requirement that borrowers under the FmHA emergency loan obtain crop insurance?

Answer: The projected increase in premium income for 1984 is predicated on several assumptions. One of the assumptions is the increased emphasis upon the use of the crop insurance program by lending agencies including FmHA to obtain a better cash flow position for their borrowers in the event of an uncontrolled disaster to the insured producers' crop. The amount of increase in new business directly attributed to FmHA emergency loan program requirements cannot be measured.

COMPENSATION FOR TRANSFERRED BUSINESS IN FISCAL YEAR 1983

Question: The notes indicate that some $30 million in premium in crop year 1983 was transferred from FCIC paper and the Master Marketing system to reinsurance companies. Were reinsurance companies compensated for this transferred business as if it were new business? If so, how much less would they have received in commissions if they had been reimbursed as if this was existing business rather than new business?

Answer: The expense reimbursement for premium which was transferred from FCIC to reinsured companies was based on the renewal premium compensation rate and not the rate for new business.

JUSTIFICATION FOR PAYING COMMISSIONS ON TRANSFERRED BUSINESS

Question: What justification is there for paying commissions on transferred business as if it were new business?

Answer: The reinsured companies are not paid on the basis of new business when the business is transferred from FCIC or a different reinsured company.

FISCAL YEAR 1985 ESTIMATE OF BUSINESS TRANSFERRED

Question: What is the current estimate for the amount of business that will be transferred from FCIC and Master Marketers to reinsurance companies in fiscal year 1985?

Answer: We expect transfers to reinsured companies to continue at about the same rate as in 1982 and 1983. Based on this, as much as $40 million of premium will be transferred in fiscal year 1985.

PROCEDURE USED TO REIMBURSE REINSURED COMPANIES AND MASTER MARKETERS

Question: Please describe the procedure used in reimbursing both reinsurance companies and Master Marketers for their services, and indicate what audit procedures are in place to verify the claims submitted by each of these for reimbursement.

Answer: The reinsured companies are reimbursed for expenses based on acreage reports and indemnity payments processed through a central data processing center, the Crop Hail Insurance Actuarial Association (CHIAA). As acreage reports are processed, the companies are reimbursed at the rate of 12 percent for administrative expenses and four percent for fixed loss adjustment expense. The companies are reimbursed for expenses, including agents' commissions at a rate of 10 percent on renewal and 15 percent on new business as the premium is reported as being paid. A three percent loss adjustment expense is paid to the companies as losses are processed.

There are numerous checks on the information used in making expense payments. First, FCIC reinsurance personnel conduct reviews at the reinsured company offices to assure the acreage reports are correctly processed, premiums are correctly calculated, claims are adjusted correctly, and the new/renewal premium designation is reviewed. FCIC reinsurance financial personnel review the accounting reports submitted for reimbursement to the companies. The Office of the Inspector General in USDA has also audited several company operations as well as reviewing the new/renewal premium designation. FCIC's Data Automation Division edits the information from reinsured companies as well as reviewing the appropriateness of new premium designation. Finally, FCIC has conducted several in depth reviews of companies and has established a rotational plan to review all companies.

The timing of reimbursement to Master Marketing companies is determined by the date of FCIC automatic data processing of annual acreage reports and collection of premium from insured producers. Three percent of the computed premium is paid to the company when the annual acreage report is entered into the central data system; the remainder (15 percent of premium for first year contracts, or 10 percent for those producers insured for previous years) is paid when the central system is credited with the full premium computed for the current year. A manual system requiring submission of a special voucher form by the company is used to provide reimbursement for the collection of past due debt terminated accounts.

PRO RATA SHARE OF OTHER RELATED ADMINISTRATIVE EXPENSES

Question: The notes indicate that with the increased premiums for crop insurance and increased business for both reinsurance companies and Master Marketers, there are pro rata increases in "other related administrative expenses" but no increase in staff years. What will this increase be used to fund, what are the "pro rata" formulas used at arriving at these increased costs based on, and please describe how these formulas were derived?

Answer: The requested increase in "other related administrative costs" will be required to fund additional operating costs associated with an expanded program for field staff, Kansas City Operations Offices, and Headquarters.

The increase in pro rata share of "other related administrative costs" were distributed to the Corporation activities using a nine (9) percent rate for Underwriting, Actuarial, and Program Development, a 25 percent rate for Reinsured Companies and a 66 percent rate for Agency Sales and Service Agreement. These percentages are based on the anticipated amount of work to be charged to each Corporation activity.

The Corporation is continuing it efforts to develop a management and financial reporting system which will be beneficial in future reporting by activities.

INCREASED LOSS ADJUSTMENT COSTS IN FISCAL YEAR 1985

Question: The budget assumes increased loss adjustment costs in FY 1985, and it assumes that reinsurance companies will be performing more of the loss adjustment. On what is this assumption based?

Answer: Estimated loss adjustment costs provided in the budget for reinsured companies are calculated from formulas contained in the reinsurance agreement applied to the estimated premium level to be handled by the reinsured companies with an estimated loss ratio of .90.

The budget for fiscal year 1985 assumes an increase in the total premium level over fiscal year 1984 and also assumes that 55 percent of the business will be handled by reinsured companies, compared with 50 percent in fiscal year 1984. Therefore, the application of the loss adjustment formulas to the greater volume of business to be handled by the reinsured companies resulted in the increased loss adjustment costs in fiscal year 1985.

REIMBURSEMENT RATE FOR LOSS ADJUSTMENT

Question: On what is the reimbursement rate for loss adjustment based for reinsurance companies? For private contractors? Why are the rates different for contract work and work done by reinsurance companies?

Answer: The loss adjustment expense reimbursement to reinsured companies, as identified in the reinsurance agreement, is based on the allocation of FCIC's expenses. This allocation was based on the actual loss adjustment expenses incurred by FCIC in 1979.

Private contractors adjusting losses for FCIC are paid for an 80-hour orientation course of instruction at a rate of $4.00 per hour. They then move to an on-the-job training status at $7.50 per hour until they become certified. Upon certification on at least two crops, they earn $10.00 per hour. During this entire time they are reimbursed for travel expenses.

These rates were established after evaluating what private insurance companies were paying contractors for part-time work. Travel regulations are naturally subject to government limitations. Also, some past FCIC cost analyses were used for input. The compensation goal was to be consistent with private industry compensation for similar services.

The difference in reimbursement rates between reinsured companies and loss contractors is because they perform separate functions. The loss contractors are involved in only the actual adjustment of losses and are reimbursed for performing only this activity. However, the reinsured companies must perform the other related work in addition to the actual adjustment. This additional related work includes providing training to adjusters, field supervision and quality reviews, providing forms and materials, processing of the claim and actual issuance of indemnity payments.

COMPARISON OF LOSS ADJUSTMENT RATES TO WORK PERFORMED

Question: How do these rates compare with the actual costs of the work performed?

Answer: The loss adjustment expense reimbursement rates for reinsured companies and FCIC loss contractor compensation cannot be compared because different services are performed. The loss contractor solely adjusts claims, while the reinsured companies perform a wide range of additional activities. In both cases, the object of the compensation schedule is to fairly pay for the work performed.

AUDITING OF CLAIMS FOR REIMBURSEMENT FOR LOSS ADJUSTMENT

Question: What auditing is done of the claims for reimbursement for loss adjustment in order to insure that we are getting what we pay for?

Answer: The reinsured companies' claims payments are reviewed at several levels. First, the company internally reviews the claims before issuing indemnity payments. FCIC reinsurance personnel review the loss adjustment procedures with company personnel as well as a review of selected actual claims. Also, the accounting reports are reviewed by Reinsurance financial personnel in Kansas City. A schedule has been established to review the financial accounting and internal operating procedures of all companies relating to multi-peril crop insurance transactions.

All FCIC loss contractors' vouchers are reviewed at the field level by immediate field supervisors and reviewed by district directors. Field Operations Offices are forwarded a copy at which time they are also received. We provide a cost analysis report by individual contractor to each Field Operations Office and to each district director so they know on a monthly basis how much money was spent by each contractor and the number of inspections performed, thus giving an average cost per unit.

FCIC APPROPRIATIONS

Question: How much appropriated for Federal crop insurance in fiscal year 1983 lapsed at the end of the fiscal year and how much appropriated for fiscal year 1984 is expected to be carried forward to FY 1985?

Answer: In fiscal year 1983, $104.9 million of FCIC's administrative and operating expenses appropriated lapsed at the end of the fiscal year. FCIC does not expect any of the appropriated funds for administrative and operating expenses for fiscal year 1984 to be carried forward to fiscal year 1985. Any appropriations for administrative and operating expenses that are unobligated at the end of fiscal year 1984 would lapse rather than carry forward into fiscal year 1985.

AUTHORITY TO USE PREMIUM INCOME TO PAY ADMINISTRATIVE EXPENSES

Question: Should appropriations in any fiscal year be insufficient to cover that year's costs for carrying out the proposed program for that year, does your current authority permit you to pay for costs in excess of the funds appropriated from premium income and other FCIC funds?

Answer: Yes, section 516(a) of the Federal Crop Insurance Act of 1980, as amended, provides that expenses associated with agents' and brokers' commissions, interest on Treasury notes and other obligations, partial premium payments by the Corporation, and the direct cost of loss adjusters for crop inspections and loss adjustments may be paid from premium income and other Corporation funds if administrative and operating expenses appropriated are insufficient.

APPROPRIATIONS LIMITING ABILITY TO CARRY OUT PROGRAM

Question: Is it, therefore, the case that a shortfall in appropriations for the crop insurance program artificially limits your ability to carry out the program. Please explain.

Answer: Although section 516(a) of the Federal Crop Insurance Corporation Act of 1980, as amended, provides that obligations for agents' commissions and loss adjustment may be paid from premium income and other Corporation funds when appropriated sums for administrative and operating expenses are insufficient, the drought of 1983 resulted in a large cash drain on the Corporation's revolving fund which have brought the balance to a critically low level in fiscal year 1984. It would not be feasible for the Corporation, at this time, to plan on program expansion using funds which could be needed to pay indemnities to producers.

REFUSAL TO SELL POLICY DUE TO INSUFFICIENT FUNDS

Question: Would you anticipate a situation ever arising where you would refuse to sell a policy because sufficient funds were not available?

Answer: No. The Corporation does not anticipate a situation arising where we would refuse to sell a policy because funds were insufficient.

The Corporation is currently requesting a language change for fiscal year 1984 and thereafter, so that the Corporation may borrow from the Secretary of the Treasury such amounts as may be necessary to enable the Corporation to discharge its responsibility under 7 U.S.C. 1508(b) and (c), if the Secretary of Agriculture certifies that available funds are insufficient to pay losses. If the language change is approved by the Congress, the Corporation could exercise its authority under section 516(a) of the Federal Crop Insurance Act of 1980 to assure that the time would not come when the Corporation would refuse to sell a policy because of insufficient funds.

GAIN AND LOSS PERCENTAGES FOR REINSURED COMPANIES

Question: It has been brought to the committee's attention that FCIC failed to report to the Committee a change in the gain and loss percentages for reinsured companies as well as several marketing changes which have the potential of increasing the costs of the Federal Crop Insurance program to the taxpayers. Why were these changes not reported as directed by the Committee?

Answer: The Committee directed FCIC to provide monthly reports on participation rates and cancellation rates, as well as any pertinent changes in the marketing and reinsurance contracts and any significant changes in administrative procedures which may impact on the cost of the Federal Crop Insurance Corporation. This directive was issued in Senate Report No. 97-566 dated September 22, 1982. There have been no changes made in the gains and losses for reinsured companies since the Standard Reinsurance Agreement, FCIC-456, was revised August 1982.

JUSTIFICATION FOR CHANGE IN GAIN AND LOSS PERCENTAGES

Question: What justification is there for the changes made in the gain and loss percentages since 1981 which GAO has indicated resulted in substantial increased gains by reinsured companies and decreased losses?

Answer: The justification for altering the distribution of underwriting gains/losses is for the companies to have an increased share in the overall underwriting experience. Their maximum exposure of underwriting loss has been increased to 11 1/3 percent of premium and this is the same amount of potential underwriting gain. The 1981 agreement placed the companies in a negative position by the maximum amount of annual underwriting gain being five (5) percent of premium while the potential underwriting loss was eight (8) percent of premium.

Additionally, the companies are involved in the program and should be allowed an underwriting reserve. FCIC had attempted to establish a long-term targeted loss ratio of 90. If this is achieved, then both the reinsured companies and FCIC build up a reserve. An underwriting reserve is required by the reinsured companies to offset bad years such as 1983 when a large number of companies had an underwriting loss.

MONTHLY CONGRESSIONAL DIRECTIVE REPORT TO CONGRESS

Question: There is an ongoing review by GAO, at my request, of the FCIC response to the monthly reporting requirements established by the Committee. It is my understanding that much of the data provided in the report and identified as actual data is not actual but estimated; that the methodology used in providing data on reinsured companies is different than that used for reinsured companies, in addition to other problems. Indicative of the problems associated with FCIC's response to this reporting requirement is a finding that FCIC based its crop year 1984 premium estimates on the amount of its 1984 appropriated funds. Can FCIC give us a better estimate of expected premium and participation rate and a description of the methodology used to obtain that estimate?

Answer: It would be difficult for us to make an accurate prediction of the total premium level for crop year 1984 at this time. The results of the spring sales will be available in June or July, and the Corporation will have enough data available at that time to provide total premium amounts for crop year 1984. A more accurate participation rate will also be available in the same time frame.

The Corporation's request for fiscal year 1984 was not derived by the amount of appropriated funds. The Corporation had requested an appropriation of $278 million for fiscal year 1984 which would have provided a premium level of $850 million. However, when the appropriation amount was cut to $200 million, and, given the heavy losses sustained by the Corporation due to the drought in 1983 and the pending request for supplemental funds for 1984, it would not have been feasible for the Corporation to plan on program expansion using funds from the revolving fund. Therefore, the Corporation did reduce its program expectations to $500 million which is a level that could be handled within the limitations of the $200 million appropriated for administrative and operating expenses.

PROCEDURE USED IN FY 1985 FOR ESTIMATING PARTICIPATION AND FUNDING

Question: What procedure was used for estimating participation in the crop insurance program in fiscal year 1985 and the funding request for that year?

Answer: The Corporation took into consideration expansion into new programs, improvements made to the program and the increased awareness and understanding of the program among farmers and other agricultural groups and therefore, we assumed a five (5) percent increase in participation and the funding was also increased to cover the increased participation. The increase in participation is determined by an increase in insured acres versus potential acres.

METHODOLOGY USED IN ESTABLISHING PARTICIPATION AND FUNDING IN FY 1985

Question: Please explain the methodology used in establishing an estimated participation rate and your budget figures for fiscal year 1985.

Answer: In fiscal year 1985, the participation rate was the beginning point for the estimate. The participation rate represents insured acres as a percentage of the potential acres. Management made the determination that the Corporation would achieve a participation rate of 25 percent; therefore, with a 25 percent participation rate, the insured acres were determined to be 68.9 million acres. The premium level was estimated at approximately $620 million by applying an $9.00 per acre value to insured acres. The delivery mix was established at 45 percent for Government operations and 55 percent for reinsured companies.

Using a proposed flat rate for commissions, regardless of whether the premium is for new business or for carryover business, a 14.6 percent rate was applied to the agency sales and service agreement, and a 23.6 percent rate was applied to the reinsurance agreement. Loss adjustment costs were established based on a .90 loss ratio and other administrative expenses were held at approximately the same level as for fiscal year 1984.

PROCEDURE TO DETECT TRANSFERRED BUSINESS

Question: It is my understanding that reinsured companies can obtain a new policy commission rate on what is essentially transferred business by having policy holders cancel their FCIC policy and then writing new policies on reinsured company paper. Is there any procedure in place to detect the amount of this activity that is going on or any procedure which would prevent it?

Answer: In order to clarify the reimbursement procedure for transfer of business, the reinsured companies are reimbursed on a renewal premium basis for business transferred from FCIC or a different reinsured company. FCIC's Data Automation Division currently has an edit in place to detect business which is incorrectly identified as new business. A proposed amendment would correct this potential problem by reimbursing the reinsured companies at a uniform agent commission amount.

Questions Submitted by Senator Chiles

CROP INSURANCE PROGRAM IN FLORIDA

Question: Would you provide me with a breakdown of the crop insurance program in Florida. What crops are covered? Extent of the coverage? Amount of protection in force?

Answer: The breakdown of the crop insurance program in Florida is as follows:

Florida 1983 Crop Year a/

Crop	Potential Acres	Acres Insured	Liability
Citrus b/	754,000	49,531	26,661,834
Corn c/	180,000	18,539	2,076,629
Cotton c/	12,500	697	179,795
Fresh Tomatoes d/	-0-	-0-	-0-
Grain Sorghum	36,250	1,068	81,693
Green Peppers d/	-0-	-0-	-0-
Peanuts	47,713	7,264	3,533,994
Rice	75,500	1,148	317,535
Soybeans	402,029	49,454	5,401,693
Sugarcane	285,000	23,062	14,139,570
Tobacco	10,022	1,646	4,433,798
Wheat	39,250	17,293	1,272,233
Total	1,842,264	169,702	58,098,774

a/ Data from FCIC Table 1-E, Summary of USDA-Reinsurance Data as of 1/24/84 (1983 crop year).

b/ FCIC 1982 Table 1-E (10/22/83) 82-83 season SRS acres bearing age.

c/ Adjusted for the Payment-In-Kind Program - SRS planted 1983.

d/ Beginning with 1984 crop year (3 seasons overlap) not available as of 4/9/84.

TOMATO AND PEPPER PILOT PROGRAM IN FLORIDA

Question: I understand an existing four-county pilot program for tomatoes and peppers in Florida is scheduled for expansion. Would you tell me when this program will be expanded state-wide?

Answer: Given the extraordinary losses caused by the severe winter, the first year of this pilot program must be considered atypical. As a result, the Board of Directors has instructed management that the program be continued for one more year on a pilot basis to permit adequate evaluation of its effectiveness in meeting the producers' needs.

INSURANCE ON NEW CROPS IN FLORIDA

Question: Would you tell me if and when crop insurance will be extended to include other valuable crops in Florida such as strawberries, eggplants and squash among others?

Answer: The Corporation's expansion plans through crop year 1985 do not include these crops. Program expansion is undertaken in accordance with established guidelines and procedures and is concentrating on crops and areas of high interest and potential. If sufficient requests for expansion into these crops were received, the Corporation would consider placing the new programs on a priority list for future expansion.

SUBCOMMITTEE RECESS

Senator COCHRAN. This will conlude the hearing. Let me say, again, I appreciate your cooperation with the committee, and that of your colleagues as well, and we will be reviewing this request and the testimony in support of it. We will try to get action on that supplemental request. We are going to see about the possibility of maybe adding that as an amendment, if we can, to the bill that is on the floor right now. I don't know if that is possible. We will look into that, though, as a possibility.

We will have a hearing of this subcommittee on Wednesday, April 4. We will be hearing at that time from representatives of the Food and Drug Administration and the Commodity Futures Trading Commission. That hearing will be in this same room, SD–124, and it will begin at 2 p.m. Until then, the subcommittee stands in recess.

[Whereupon, at 3:35 p.m., Thursday, March 29, the subcommittee was recessed, to reconvene at 2 p.m., Wednesday, April 4.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1985

WEDNESDAY, APRIL 4, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 2 p.m., in room SD–124, Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senator Cochran.

FOOD AND DRUG ADMINISTRATION

STATEMENT OF MARK NOVITCH, M.D., ACTING COMMISSIONER OF FOOD AND DRUGS

ACCOMPANIED BY:

- **THOMAS SCARLETT, CHIEF COUNSEL**
- **GERALD F. MEYER, ASSOCIATE COMMISSIONER FOR MANAGEMENT AND OPERATIONS**
- **FRANK P. CLAUNTS, DIRECTOR, DIVISION OF FINANCIAL MANAGEMENT**
- **ANTHONY ITTEILAG, DEPUTY ASSISTANT SECRETARY, BUDGET, DEPARTMENT OF HEALTH AND HUMAN SERVICES**

SUBCOMMITTEE PROCEDURE

Senator COCHRAN. The subcommittee will please come to order.

This afternoon we are very happy to welcome representatives of the Food and Drug Administration and the Commodity Futures Trading Commission as witnesses on behalf of the budget request submitted by the administration.

We will operate this afternoon with two panels. The first one will be the Food and Drug Administration (FDA) panel.

The mission of FDA, as you know, is to protect the public health of the Nation as it may be impaired by foods, drugs, biological products, cosmetics, medical devices, radiological products, poisons, pesticides, and food additives.

Although the FDA is a part of the Department of Health and Human Services, it comes under the jurisdiction of this subcommittee, primarily because of its role in ensuring the safety, quality, and proper handling and labeling of food products.

I want to welcome to the subcommittee Dr. Mark Novitch, who is Acting Commissioner of the FDA. Dr. Novitch, we invite you to introduce those who are accompanying you this afternoon and proceed to make whatever comments you wish.

PREPARED STATEMENT

We have a copy of your statement which will be incorporated in the record in full. We would encourage you to make summary comments so that we will have an opportunity for questions.

[The statement of Dr. Mark Novitch follows:]

STATEMENT OF DR. MARK NOVITCH

Mr. Chairman, I am pleased to have the opportunity to appear before your Subcommittee today to discuss the Food and Drug Administration's budget request for 1985. I would first like to introduce my colleagues at the table with me....Other members of my staff are also present if needed to respond to specific questions and interests of the Committee.

Before I review our 1985 budget request, I would like to briefly summarize our Orphan Product activities of the past year, since this has been an area of continuing interest to the Committee. Then I want to explain our role in addressing concerns about ethylene dibromide (EDB), our progress in sodium labeling, and provide you with the status of our new facility at Beltsville. I will then discuss our 1985 budget request.

ORPHAN PRODUCTS

Thanks to continued Congressional concern and support, and in particular that of this Subcommittee, our work in the area of orphan products continues to be promising. In 1983, the Agency approved five New Drug Applications for orphan products, as well as one application for a new medical device for an orphan condition. Moreover, FDA's efforts, in conjunction with other Federal agencies and outside groups, resulted in the identification and review of over 50 candidate products which show promise as potential therapeutic agents for orphan diseases. Another 200 such products under research are being followed to determine whether they will prove to be safe and effective. Additionally, since May 1982 we have obtained commitments by sponsors to develop 25 new products for orphan uses. One of these products, chenodiol, for use in patients at high risk from gall bladder surgery, was approved for marketing in July 1983, and another recently received an approvable letter and should receive final approval soon. Marketing applications are under review for 7 of the remaining 23 products and applications are expected for the rest in 1984 and 1985.

We are also continuing to implement the provisions of the Orphan Drug Act. These activities include coordination with the Department of Commerce and the Department of the Treasury regarding the patenting of orphan products, exclusive marketing rights where a product cannot be patented, and the tax credit provisions of the Act. During 1983, FDA published interim guidelines for obtaining FDA recommendations and assistance in investigating orphan products, and for granting a product orphan status under the Act.

Further, we have established review criteria and a mechanism for providing funding for outside studies of orphan products. With the increases this committee provided in FDA appropriations for this purpose, in 1983 the Agency awarded eight grants totaling $500,000 for studies of promising products, and we expect to award at least $1,000,000 for such studies in both 1984 and 1985.

EDB

In the area of foods, we are currently responding to concerns about the pesticide ethylene dibromide. or EDB. As you and this committee know, EDB has been used primarily as a soil fumigant and as a post-harvest fumigant. This latter use is a source of EDB residues in citrus fruits and in many grains and grain products. The Environmental Protection Agency, which has regulatory authority over use of this pesticide, has suspended the use of EDB as a soil fumigant and as a grain fumigant, and we continue to work closely with them to determine how widespread the contamination is. We are in the process of increasing our sample analyses to determine residue levels in partially cooked and ready to eat grain products and raw grains and fruits for human consumption. We have also just proposed to broaden uses of food irradiation, which in some cases may eventually serve as an effective alternative to EDB and other pesticides. Although it may be some time before technology develops to the point that food irradiation could be in widespread use, we believe our proposal opens the door to the development of this potential alternative to EDB.

SODIUM

Another food issue which has received substantial attention over the past few years is sodium, and we are pleased with the voluntary response from the food industry and the heightened consumer awareness. Virtually every segment of society is affected by, and concerned about, the issue of sodium and health. FDA's sodium program, begun in 1981, has several straightforward goals: To increase the amount of sodium information consumers receive, to increase public awareness of the association of sodium and hypertension, to reduce the amount of sodium in processed foods, and to reduce the amount of sodium from all sources consumed by Americans. Our approach was equally straightforward. We pledged to propose labeling changes to make information about sodium more readily available, to work to educate consumers about sodium, to encourage industry voluntarily to reduce the amount of sodium in processed foods, and to monitor the marketplace and changes in sodium consumption.

An FDA survey conducted in July 1983, based on retail grocery sales and data, shows that an estimated 30 percent of FDA-regulated packaged processed foods now have quantitative sodium labeling, up from 7.5 percent in 1978. The survey also shows that out of the 51 groups of processed foods for which detailed sales volume data are available, 42 now have some products bearing sodium labeling. This figure is up from 31 a year earlier.

There is also reason to believe consumers are using this information. In the Fall of 1982, a telephone survey of 4,000 consumers found that the use of the ingredient list on food labels to avoid or limit sodium consumption has tripled since 1978, from 14 percent to 40 percent.

Also, industry cooperation to decrease the sodium content in processed foods and to increase the availability of sodium-modified foods has been encouraging. The food industry has introduced many no-salt-added lines of foods. At least one firm has begun marketing an entire line of no-salt-added canned vegetables. Others have also increased the number of reduced or lower-sodium products.

We are encouraged by how well the program is working, thanks largely to our cooperative efforts with industry, and through consumer education.

NEW BELTSVILLE FACILITY

Mr. Chairman, the primary foundation of our regulatory efforts remains in our scientific activities. Our level of knowledge, paralleling technology itself, is constantly changing. Our activities must allow us to be receptive to innovation, promote discovery, and then utilize the results. New and better methods are constantly being discovered in virtually every area we regulate. In fact, we have just granted orphan drug status to a product of recombinant DNA technology. The drug is Alpha-I Antitrypsin, a potentially valuable treatment for certain cases of emphysema.

One effort which will go a long way toward maintaining our scientific capabilities and allow us to attract good scientists is our new laboratory building in Beltsville, Maryland. I'm happy to say that our efforts, with this Subcommittee's support, can now be seen in steel and concrete. This module will enable us to replace the animal testing and related laboratory facilities presently located in Federal Building 8 in Washington, and should be completed by the middle of 1986.

1985 BUDGET REQUEST

Now let me turn to our 1985 budget request. Our total request is for $399 million, of which we are asking for an appropriation of $394 million and authority to use up to $5 million of user charges to be collected. The total requested represents an increase of about $4 million over 1984.

A major feature of our request this year is a proposal to collect user charges in the amount of $5 million. The Agency is developing proposed regulations to charge sponsors of new drug applications and abbreviated new drug applications under the authority of the User Charge Act. While FDA's basic mission is to protect the consumer by carrying out the provisions of the Food, Drug, and Cosmetic Act, it is clear that industry benefits from regulation as well. For example, the makers of drugs, in marketing their products both in this country and overseas, benefit from the consumer's knowledge that their products and manufacturing operations are monitored by FDA and must meet the standards of safety and efficacy administered by the Agency.

The Agency expects to collect approximately $4.5 million in 1985 from these new user charges. Our appropriation request would also allow FDA to credit to its appropriation certain types of fees already being collected, so that these fees can also assist in offsetting FDA's costs. Such fees (of about $0.5 million) would include certain amounts collected for processing Freedom of Information requests, as well as the charges which are imposed for supervision by FDA staff of reconditioning articles which have been seized or detained under the law. In summary, FDA's proposed budget would provide up to $5 million, for existing and newly-established charges, to be credited directly to FDA's operating appropriations account, with any collections over that amount to be credited to general receipts of the Treasury.

In addition to our operating budget, the request before you also includes $1.5 million for essential repairs and improvements to various FDA laboratory facilities. This includes the most urgent repair and renovation projects essential for the Agency to maintain operating conditions and meet current scientific testing needs.

Mr. Chairman, this concludes my prepared remarks. I will be happy to respond to any questions you or members of the Subcommittee may have.

INTRODUCTION OF COLLEAGUES

Dr. Novitch. Thank you very much, Mr. Chairman. It is a pleasure to be here to present our request for 1985.

I would like to introduce my colleagues at the table with me. On my far right is Anthony Itteilag, who is Deputy Assistant Secretary for Budget from the Department of Health and Human Services. On his left is Tom Scarlett, who is FDA's Chief Counsel. On my left is Gerry Meyer, Associate Commissioner for Management and Operations at FDA. To his left is Frank Claunts, who is Director of our Division of Financial Management.

I have submitted my statement for the record, Mr. Chairman. I would like to summarize somewhat.

Before I review our 1985 request, I would like to briefly summarize some of the major issues and activities that we have experienced in the past year, including orphan drugs, some current concerns about ethylene dibromide—better known, I guess, as EDB—progress in sodium labeling, and then bring you up-to-date on our new facility at Beltsville. Let me start with orphan products.

ORPHAN PRODUCTS

Thanks to congressional interest and concern and the strong support of this committee, we have made considerable progress in the past year in the area of orphan products. In 1983 we approved five new drug applications for orphan products, as well as one application for a new medical device for an orphan condition. We have worked with other Federal agencies and outside groups, and we have identified over 50 candidate products which show promise as potential therapeutic agents for orphan disease. We are examining another 200 such products under research to see whether they will also prove to be safe and effective.

Since May 1982, we have obtained commitments by sponsors to develop 25 new products for orphan uses. One of these products, chenodiol, for use in patients at high risk from gall bladder surgery, was approved for marketing in July 1983, and another recently received an approvable letter and should receive final approval very soon. Marketing applications are under review for 7 of the remaining 23 products, and applications are expected for the rest in 1984 and 1985.

We are also working with the Departments of Treasury and Commerce to implement provisions of the Orphan Drug Act. These include the patenting of orphan products, exclusive marketing rights where a product cannot be patented, and the tax credit provisions of the act.

During 1983, we published interim guidelines for obtaining FDA recommendations and assistance in investigating orphan products and for granting a product orphan status under the act.

Beyond that, we have established review criteria and a mechanism for providing funding for outside studies of orphan products. With the increases this committee initiated in FDA appropriations for this purpose, in 1983 the agency awarded eight grants totaling $500,000 for studies of promising products, and we expect to award at least $1 million for studies in both 1984 and 1985.

NEW DRUG APPROVAL

In the drugs area generally, Mr. Chairman, we are organizing ourselves to try to be more efficient and to get new drugs into clinical use with a minimum possible delay without compromising necessary standards of safety and effectiveness.

We have established a new Center for Drugs and Biologics, which will integrate two former bureaus, Biologics and Drugs, and aid us in both research and regulation of drugs. We have broadened signoff authority for final new drug applications so that not all applications will have to go through a single final channel for approval.

We are working on complete revisions of the regulations covering investigational new drugs and new drug applications, the so-called IND–NDA rewrite. We are moving to strengthen post-marketing drug surveillance. Beyond that, we are looking for the same kinds of efficiencies in the regulation and approval of veterinary drugs.

CONCERNS ABOUT EDB

In the area of foods, we are currently responding to concerns about the pesticide EDB. As you know, EDB has been used primarily as a soil fumigant and as a post-harvest fumigant. This latter use is a source of EDB residues in citrus fruits and in many grains and grain products.

The EPA, which has regulatory authority over use of this pesticide, has suspended the use of EDB as a soil fumigant and as a grain fumigant, and we are working closely with them to determine how widespread the contamination is. We are increasing our sample analyses to determine residue levels in partially cooked and ready-to-eat grain products and raw grains and fruits for human consumption.

We have also just proposed to broaden uses of food irradiation, which in some cases may eventually serve as an effective alternative to EDB and other pesticides. Although it may be some time until technology develops to the point that food irradiation could be in widespread use, we believe our proposal opens the door to the development of this potential alternative to EDB.

INCREASED INFORMATION ON SODIUM

Another food issue which has received substantial attention over the past few years is sodium. We are pleased with the voluntary response from the food industry and the heightened consumer awareness. Millions of people are affected by and concerned about the issue of sodium and health.

FDA's sodium program, which began in 1981, has several straightforward goals: to increase the amount of sodium information consumers receive, to increase public awareness of the association of sodium and hypertension, to reduce the amount of sodium in processed foods, and to reduce the amount of sodium from all sources consumed by Americans.

I think our approach is equally straightforward. We pledged to propose labeling changes to make information about sodium more readily available, to work to educate consumers about sodium, to encourage industry voluntarily to reduce the amount of sodium in processed foods, and to monitor the marketplace and changes in sodium consumption.

An FDA survey conducted in July 1983, based on retail grocery sales and data, shows that an estimated 30 percent of FDA-regulated packaged processed foods now have quantitative sodium labeling. That, Mr. Chairman, is a four-fold increase from the 7.5 percent that bore such labeling in 1978.

The survey also shows that out of the 51 groups of processed foods for which detailed sales volume data are available, 42 now have some products bearing sodium labeling. That figure is up 31 from last year.

All of that indicates those who need to or want to reduce sodium in their diet have the means to do it through better information and availability of lower sodium products.

There is also reason to believe consumers are using this information. In the fall of 1982, a telephone survey of 4,000 consumers found that the use of the ingredient list on food labels to avoid or limit sodium consumption has tripled since 1978, from 14 percent to 40 percent.

Also, industry cooperation to decrease the sodium content in processed foods and to increase the availability of lower sodium foods has been encouraging. The food industry has introduced many no-salt-added lines of foods, and at least one firm has begun marketing an entire line of no-salt-added canned vegetables. Others have also increased the number of reduced or lower sodium products.

We are encouraged by how well this program is working, thanks to our cooperative efforts with industry, and through consumer education. We expect even more progress in the months and years ahead.

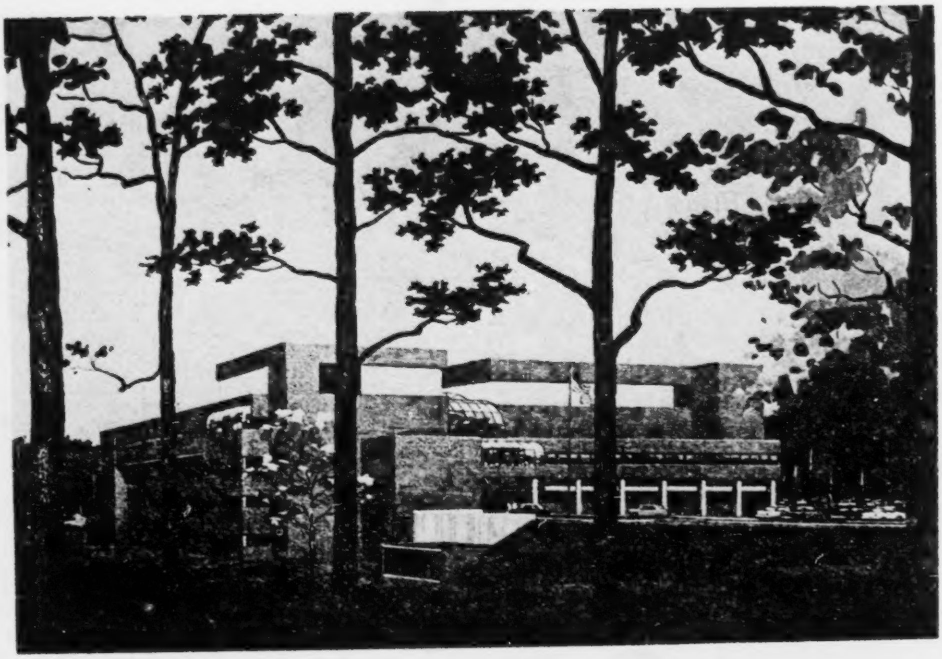
Mr. Chairman, the primary foundation of our regulatory efforts has to be the quality of our science. Our level of knowledge, paralleling technology itself, is constantly changing. We have to be receptive to innovation, promote discovery, and then utilize the results. New and better methods are constantly being discovered in virtually every area we regulate.

To cite one example, we have just granted orphan drug status to a product of recombinant DNA technology. The drug is Alpha-I Antitrypsin, a potentially valuable treatment for certain cases of emphysema.

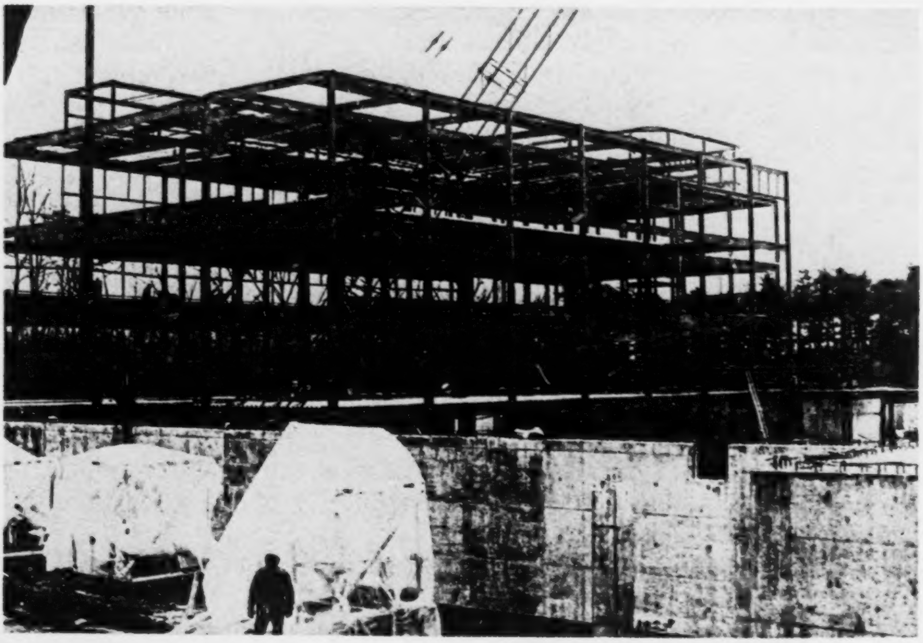
NEW LABORATORY FACILITIES

One effort which will go a long way toward maintaining our scientific capabilities and allow us to attract good scientists is our new laboratory building in Beltsville, Md. I am happy to say that our efforts can now be seen in steel and concrete and actually can be seen in this committee room.

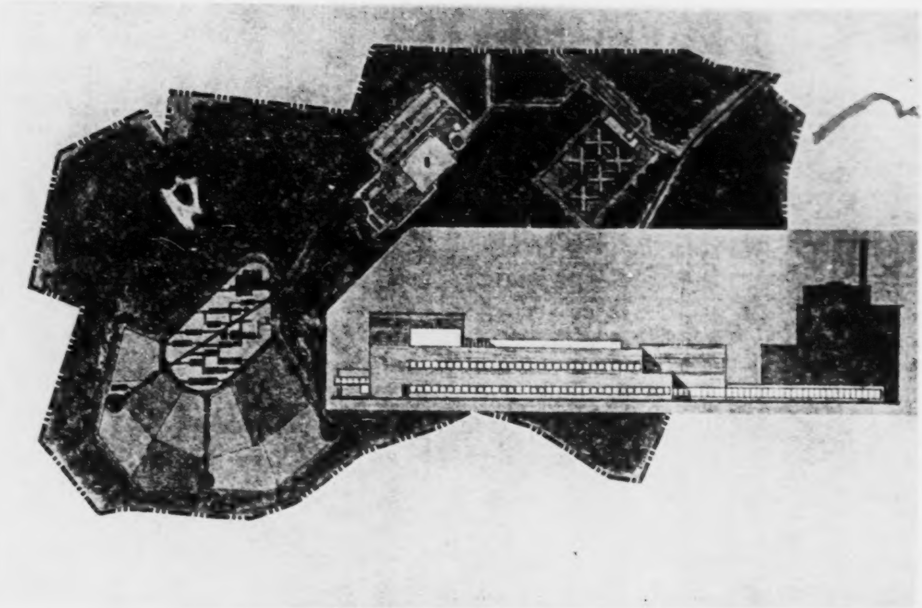
[CLERK'S NOTE.—Dr. Novitch presented several displays to the subcommittee.]



This, Mr. Chairman, is Module I of the Beltsville facility as it will look in the spring of 1986 when the building is complete. We broke ground for that building last summer, and it will take some 2½ years to complete. You are all welcome to come to the dedication.



This is what it looks like now. This picture was taken a few weeks ago, and it is just wonderful for us, at last, after so much planning and effort, to see those efforts translated into the beginning of a new structure.



This, Mr. Chairman, is a schematic. This committee appropriated funds for architectural and engineering drawings for the second module. We are not now requesting funds for the construction of that module, but we will be finished in a few months with the architectural drawings. This is how it will relate geographically to Module I. This is a side view of what the building will look like, attached to Module I, and it will also have attached to it paddocks and several acres of grazing fields for large animals that will be test subjects.

What you have just seen, Mr. Chairman, will enable us to replace the animal testing and related laboratory facilities presently located in Federal Building 8 in Washington. As I said, it should be completed by the middle of 1986.

1985 BUDGET REQUEST

Now if I may, I would like to turn to our 1985 budget request. Our total request is for $399 million, of which we are asking for an appropriation of $394 million and authority to use up to $5 million of user charges to be collected. The total requested represents an increase of about $4 million over 1984.

A major feature of our request this year is a proposal to collect user charges in the amount of $5 million. The agency is developing proposed regulations to charge sponsors of new drug applications and abbreviated drug applications under the authority of the User Charge Act.

While FDA's basic mission is to protect the consumer, it is clear that industry benefits from regulation as well. For example, the makers of drugs, in marketing their products both in this country and abroad, benefit from the consumer's knowledge that their products and manufacturing operations are monitored by FDA and must meet the standards of safety and efficacy administered by the Agency.

We expect to collect approximately $4.5 million in 1985 from these new user charges. Our appropriation request would also allow FDA to credit to its appropriation certain types of fees already being collected so that these fees can also assist in offsetting FDA's costs. These fees of about half a million dollars would include certain amounts for Freedom of Information requests as well as charges for reconditioning articles that have been seized or detained under the law.

In summary, FDA's proposed budget would provide up to $5 million, for existing and newly established charges, to be credited directly to FDA's operating appropriations account, with any collections over that amount to be credited to general receipts of the Treasury.

In addition to our operating budget, our request also includes $1.5 million for essential repairs and improvements to various FDA laboratory facilities. This includes the most urgent repair and renovation projects essential for the Agency to maintain operating conditions and meet current scientific testing needs.

Mr. Chairman, this concludes my prepared remarks. My colleagues and I would be happy to answer any questions you might have.

EQUIPMENT FOR NEW LABORATORIES

Senator COCHRAN. Thank you very much.

In connection with the building of the facility at Beltsville, you are not far enough along, I suppose, to be requesting any appropriation for equipment or anything other than the building itself; is that correct?

Dr. NOVITCH. That is correct, Mr. Chairman. We will have time, I think, in future budgets to determine more precisely what we will need there.

USER FEES

Senator COCHRAN. You mentioned the user fees there toward the end of the statement and the prospects for being able to obtain a substantial amount of revenue from user fees. What kind of user fees are you going to be charging and for what?

Dr. NOVITCH. In this budget, the fees would be collected for each new drug application and each abbreviated new drug application. They would be different amounts. There would be a certain charge, a one-time charge, regardless of how many times the application has to come back for additional information or has to be resubmitted. There would be a one-time charge for each original new drug application and a lesser charge for each abbreviated new drug application, which is an application for a drug that has already been marketed and contains considerably less information on safety and effectiveness.

Senator COCHRAN. Will you have to have legislation approved by Congress to authorize that?

Dr. NOVITCH. We have legislation under the User Charge Act. What we would have to do is propose regulations to do that. But it would be done under the authority of the User Charge Act that already exists.

Senator COCHRAN. You haven't published any proposed regulations at this time?

Dr. NOVITCH. No; we haven't.

Senator COCHRAN. If your budget is frozen at the 1984 level, what is going to be the impact of that on your agency to do the job you are required to do under the law?

Dr. NOVITCH. If you mean for all of FDA's appropriation accounts combined, our total 1985 request is slightly less than 1984's. Our budget contains a little under 100 fewer positions than we will have had in 1984, a reduction of about 97 positions. What it will mean is a general belt-tightening. Once more, I think that we will be able to carry out all of the responsibilities we have under the law with our 1984 budget. It means that some research efforts will have to be stretched out. It will require us to be more efficient, and we will continue to be more efficient in the handling of inspections. I believe that we will be able to accomplish what the committee and the people expect of us.

CONTINGENCY FUND

Senator COCHRAN. There had been a request last year for a contingency fund to take care of emergency and unanticipated events.

Dr. NOVITCH. That is right.

Senator COCHRAN. As I recall, the Tylenol investigation required some unexpected expenditure in man-hours and expenses. Last year, we provided $1 million for that. This year the budget doesn't contain any request. Is it thought that we are not going to have any unanticipated emergencies next year?

Dr. NOVITCH. No; the rationale is that there are sufficient funds to cover an emergency. As you know, we have $1 million that is available to us in 1984 that expires at the end of 1984, and another $1 million which was appropriated in 1983 and is available until used.

Of the four or five emergencies that we have analyzed, most of those—in fact, all but one—have been well under $1 million. We believe that even if we should use all of the $1 million earmarked for 1984 in this fiscal year, the next fiscal year we would still have $1 million which should cover any unanticipated emergency expenses. It is felt that there is no critical need to include that in the request this year.

PRODUCT TAMPERING

Senator COCHRAN. Have you had to go around and look at a lot of Girl Scout cookies?

Dr. NOVITCH. Indeed we have. As a matter of fact, I asked the staff if we could begin counting up what it is going to cost us, because our people in the field worked over last weekend and will be working quite a bit of overtime until that situation stabilizes. That will be an example of where we may be using some of those funds.

Senator COCHRAN. What is the situation now? Has it just been one or two needles?

Dr. NOVITCH. I am afraid it is more than that. As of this morning we are up to nearly 200 complaints. We recognize that not all of those are going to be tampering. Once a thing like that has received wide publicity, all sorts of things happen, from real to imagined, indeed up to extortion. There has been some of that, too.

Senator COCHRAN. How does the extortion work?

Dr. NOVITCH. Well, in Tylenol—and I am not sure how it has happened in this instance—but in Tylenol and other tampering instances, people have come in and said, "If you don't leave some money for me at a certain place at a certain time, I will poison some product." Or people have put things in products, shown "the evidence" to the authorities, and then demanded money from the firm for compensation, things of that kind.

You will recall that after Tylenol there were several hundred reports of tampering, none of which ever approached the seriousness of the original incident.

I don't think we have done enough work on the current incident to know exactly what is happening.

Senator COCHRAN. Do we need new laws to really slap people who engage in this kind of activity, this kind of behavior?

Dr. NOVITCH. There is an Anti-Tampering Act now on the books as a result of Tylenol that imposes very severe sentences, up to life imprisonment if a death results and 20 years if serious harm results, as well as substantial fines.

Senator COCHRAN. This is a Federal offense now.

Dr. NOVITCH. That is right, it is a Federal offense. What we are trying to do, and what I think all of us need to do is make sure that those who think that this is a joke know full well that even an attempt, even if it doesn't result in harm but can be shown to be an attempt to damage the reputation or do economic harm to a firm, can also result in penalties. I think we need to make clear to the public that a law is now on the books and will be enforced. The Justice Department administers that act. We are working very closely with the FBI in this instance.

Senator COCHRAN. You say you are in the process now of assessing the expense of this exercise on the agency. You don't have any figures right now or any estimates now as to the cost?

Dr. NOVITCH. No; if I had to guess, I would say up to now it is probably less than 50,000 or 100,000 dollars' worth of overtime.

Mr. MEYER. I am sure we are below the threshold which we established, which was $100,000, of extraordinary expenses before we would seek to use any of those emergency funds. We are still under that threshold.

Dr. NOVITCH. I think it is going to go on and may reach the threshold.

TOXICOLOGICAL RESEARCH FACILITY

Senator COCHRAN. In the emergency jobs bill, we had some money for a toxicological research facility in Arkansas. I was going to check with you today and see what the status of that project is. Where are we in terms of being ready to put that out for bids? Do you have a request in here for that?

Dr. Novitch. No; we don't. The architectural and engineering drawings for the work that was to be done with those funds are complete. I would like to ask Mr. Meyer to comment in some detail on it.

Mr. Meyer. The A&E work is complete. We very thoughtfully considered requesting construction funds, Mr. Chairman, in our budget this year. This is a year when we are all trying to take our share of restraint in Federal spending. It is not part of our request this year, and we certainly intend to reconsider it next year in the formulation of the 1986 budget.

Senator Cochran. So that we will have something in the record from you on this, because I know I am going to be asked about it by my colleagues from Arkansas, how about describing the project for me. What is that building going to be used for? What is the estimated total cost of the project? Do you have those figures?

Mr. Meyer. The building will be used for two or three things, principally. One is some expanded toxicology studies that have to do with understanding mechanisms of damage to genetic material, testing the assumptions used for assessing human risk to toxic chemicals, and short-term tests on teratogenic and mutagenic effects.

Senator Cochran. What are those two things now, for those of us who don't really know.

Mr. Meyer. I am sorry; that is fair. Thank you.

Those have to do with the impact of a substance on the unborn or on a future generation. The studies for that are very important, because the impact of that on society is sometimes not as well thought out or not as conscious a concern as the impact of the possible causes of cancer. So we do those kinds of studies at NCTR, too.

In addition to that, there are several facilities that are embraced in the building which permit us to replace some very old cage washing and general support facilities for the center that are now at the point where they really need replacement. That is what the facilities will be used for. It will house mostly toxicology labs.

The cost is about $15 million to construct, based on the preliminary estimates we have from A&E work.

Senator Cochran. What will be the impact on the project and on the activities at the center if we don't put any money in this bill this year?

Mr. Meyer. We will have to wait at least a year, sir, before we begin those facilities.

Senator Cochran. The money is for renovation of a building.

Mr. Meyer. That is right.

Senator Cochran. That building is now being occupied and used; is that right?

Mr. Meyer. The money is for renovation of portions of a building which are not being used now. They are part of the old Pine Bluff Arsenal Biological Warfare Facility which we have never occupied.

Senator COCHRAN. That is lucky, I guess. [Laughter.]

Will the work that is being done now at the national center be permitted to continue? Will it be able to be done without the new facility?

Dr. NOVITCH. Yes; the work that is being done there at the center will continue. What the new renovations would do is allow us to expand the work. What this all means is that all of our current projects and anticipated projects will go forward. If we had the renovations, what that would mean is that we would have more hospitable facilities and expansion of the work there, and we really do need to expand some of that work.

ANTIBIOTICS IN ANIMAL FEED

Senator COCHRAN. There is a study that has been brought to our attention by the American Council of Science and Health relating to antibiotics in animal feeds. I also understand the National Academy of Sciences has conducted a study, too. The conclusions are similar, I am told. One conclusion is that there is no evidence of a current or imminent human health hazard from antibiotics in animal feed. The other concludes that the hazards to human health have neither been proven nor disproven.

What action, if any, or conclusions, if any, will the FDA take or reach as a result of these findings and studies in view of the fact that several years ago there was a proposal at FDA to ban or restrict the use of antibiotics in animal feeds?

Dr. NOVITCH. That proposal is still out there and has not been acted on. The reason it has not been acted on is that there is a strong feeling on the House Appropriations Committee, as well as here, that more research had to be done. We have worked over the last several years to conduct that research. We now anticipate that it is going to be finally completed in July or August of this year, and that by the end of the year we will be able to have reached some conclusion about what further needs to be done.

Senator COCHRAN. Are you contracting out the study or are you doing it in-house?

Dr. NOVITCH. No; most of it is being contracted out. The last piece of the information will come from Seattle, Wash. Some of it has come from other places.

Senator COCHRAN. Do you consider or will you consider the conclusions of these two studies that I referred to? Are they well-respected sources of information?

Dr. NOVITCH. Sure. They have to be seriously considered, and we will take into account the considerable body of information before we make any decision. I can assure you it will be a well-thought-out decision and based, I hope, on good science.

SODIUM LABELING

Senator COCHRAN. Thank you very much.

You mentioned the progress being made with sodium and the publicity and the education process. I think that is good. I know that Dr. Hayes was very keenly interested in that.

Dr. NOVITCH. He certainly was.

Senator COCHRAN. He did a great job, I think, in bringing some important information to the attention of the American people with respect to sodium, while at the same time he resisted legislation that would have required unnecessary expense in labeling. He tried, instead, to persuade those who are in a position to do something about it to voluntarily disclose information or cooperate in the effort to educate the public.

ARTIFICIAL SWEETENERS

You may have told me this in your statement, but what is the status of the saccharin issue? You have a new sweetener now that Searle has on the market. Are you doing anything in connection with NutraSweet?

Dr. NOVITCH. Yes; we have approved NutraSweet as both a tabletop sweetener and as a sweetener in liquid beverages. All of the uses that have been applied for have now been approved.

There have been objections to its use and requests for a hearing on the approval of aspartame. We have concluded that the objections don't justify a hearing. We have denied the hearing.

Unless there is a court challenge, the sweetener is approved and is on the market and being used.

ORPHAN PRODUCTS

Senator COCHRAN. I appreciate also the report on orphan drugs. I had cosponsored legislation with Senator Nancy Kassebaum of Kansas on that subject, thinking that we could do a better job in speeding up the process and trying to make sure we protect the safety and well-being of the general public at the same time. I am happy to see that progress is being made.

What has been the industry response to the development of these new procedures in connection with orphan drugs?

Dr. NOVITCH. I think there has been a genuine interest, and I think a very welcome interest, on the part of some small firms to take advantage of support through grants and tax credits and other incentives in the Orphan Drug Act and in our own program that enables some of them for the first time to get into the business of research and development.

It seems to me that not only will they be doing a very useful public service in developing orphan drugs and drugs for conditions that have lacked useful treatment up to now, but it may give them a leg up on research and development generally and introduce some new entrants into the research side of that industry. It may have some very useful spinoffs.

In any event, we have focused mainly on the orphan drug side of it. As I said, we have gotten some 50 applications for grants, and I think that the industry is quite pleased with the technical assistance we are giving them. I think things are going rather well there.

SUBMITTED QUESTIONS

Senator COCHRAN. I appreciate very much your being here today and the cooperation with the subcommittee. I think you made a very helpful presentation to us today.

We will carefully review the budget request and consider your remarks very carefully as we go through the process. We will also have some written questions to be answered subsequent to the hearing. Thank you very much for being here.

Dr. NOVITCH. Thank you, Mr. Chairman.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

REDUCTION IN GRADES

QUESTION: I notice you reflect a savings of $836,000 resulting from a reduction of the percentages of staffing in grades GS 11-15. What effect will this reduction have on your present staffing? How will this reduction be accomplished?

ANSWER: This effort, to reduce the proportion of our total staffing which falls within this grade range, will be accomplished through attrition. In addition to reducing our overall staffing level as shown in our Justification, FDA will also be seeking to replace employees in grades 11 to 15 who leave the agency with new employees at lower grades.

Thus, there are actually two distinct changes to FDA staffing reflected in the budget request. The first is the general overall reduction of 97 staffyears, and the second is the reduction of the percentage of our total staff who are graded in grades 11 through 15. This latter effort has been referred to as the "Grade Bulge." As a part of this OPM effort each agency has received grade reduction targets based on a multi-year effort to reduce the percentage of employees who are graded in grades 11 through 15. FDA has many specialized employees, such as physicians, veterinarians, and Ph.D. level scientists for whom the entrance level is GS-11 or higher. Moreover, many other positions in FDA have educational requirements that properly place the journeyman grade level for the position within the grade 11 to 15 range, such as investigators and laboratory professional staff.

About 55% of our staff fall within grades GS-11 through 15, and our experience has been that attrition generally will occur among all grade levels. Thus about 55% of the 97 FTE loss presented in our budget, or 55 staffyears, will occur at the grade 11-15 grade level--these 55 employees will not be replaced. In addition, 50 other attriting grade 11 through 15 employees will be replaced at grade levels below GS-11. Since grade GS-13 is the most common grade among FDA staff, and there are very few positions classified in grade GS-10, our estimate is based on the difference between an average salary for a grade 13 and the average salary for a grade 9. Salaries and benefits for a new GS-13 are about $39,800, while the annual cost of a new grade 9 are $23,100. Thus we would expect to save, on the average, about $16,700 each for these fifty positions, yielding a total savings of $836,000.

BUDGET CONSTRAINTS

QUESTION: For the past three years FDA has been under rather tight budget constraints. You also have reduced personnel levels. Is your budget adequate to fulfill your obligations under the law? How will this affect the operations and travel of inspectors?

ANSWER: Although FDA's personnel levels have been reduced from those of a few years ago, these reductions will not affect the Agency's basic ability to carry out its fundamental responsibilities under the law. We believe, barring something unforeseen, that the request for 1985 will allow us to function as the law requires. Since the request includes increases for inflationary costs, we should be able to provide a proper level of support for inspection programs as well as our other laboratory and product review operations.

We believe FDA can continue to carry out its mission of ensuring the safety and effectiveness of the products we regulate. The staffing reduction, which will be taken through attrition, will be made as much as possible by improving our productivity and the efficiency of our management and support functions. We will continue to reexamine and restructure our priorities and the way we operate, to be sure that our resources are directed to the most pressing concerns, while carrying out our basic responsibilities under the law. For example, we have continued to evolve our inspectional strategy, both to inspect those establishments more often which may present health risk, and also to assure that our operational procedures do not require the inspector to spend longer in the plant than is necessary to ascertain that there are no significant violations.

While the overall level of FDA's activities has been reduced over recent years, we believe that the 1985 request is appropriate in these times of budget restraints.

QUESTION: If your budget is frozen at the fiscal '84 level, $387,449,000, what impact would this have on FDA?

ANSWER: FDA's current 1984 appropriation, including Buildings and Facilities, is $387,449,000. Combined with the $6,478,000 which is requested as a supplemental for payraise costs and transfers of $890,000 which are also requested to meet pay costs, our current fiscal 1984 estimate of total appropriations is $394,817,000.

FDA's total request for appropriations in fiscal 1985 is $394,004,000. Although increases are included in our request for inflationary costs, these increases are offset by the general personnel reduction, the reduction in equipment purchases, and, most importantly, by the projection that $5 million of the Agency's operating costs can be met by the collection of user charges. Consequently, our fiscal 1985 request is $813,000 less than the current fiscal 1984 estimate.

On the other hand, if a freeze limited our 1985 appropriations to the level of the original 1984 appropriation, the impact on FDA would be substantial. Compared to our 1985 request of $394,004,000, the current 1984 level of $387,449,000 would force a reduction from our request of $6,555,000. A reduction of this magnitude would seriously jeopardize our ability to support current operations, forcing severe restrictions on our ability to provide a suitable level of travel and supplies for field investigations and laboratory testing as well as equipment and other support for headquarters activities. More important, it would likely force further personnel reductions, possibly up to 160 staffyears. Since we are already absorbing some of our attrition to meet the projected 1985 staffing level, it would be difficult for the Agency to meet such a further reduction without a RIF--that is, as attrition occurred during 1985, we would probably have to leave over 200 currently-occupied positions vacant in order to save 100 equivalent staffyears. Further, should a RIF be required, it is extremely costly -- both in terms of expenditures of severance pay and other entitlements, which would definately require further appropriations, and in terms of significant organizational disruption. (In many RIFs over 7 people are required to shift jobs for every person laid off, causing operational problems for several years afterwards.) This problem would be compounded if for any reason we were unable to collect the full $5 million from user charges, forcing even further staffing cuts.

USER CHARGES

QUESTION: You mentioned in your statement that in 1985, FDA plans to implement new user charges. Have you been charging user fees before? For what activities?

ANSWER: We have charged fees for several activities in the past, but not under the authority of the User Charge Act. For example, we currently charge for the services we perform in certifying insulin and colors. Collections for these two programs will amount to about $2.1 million in 1985. These charges are levied under specific provisions of the Food, Drug, and Cosmetic Act, and the receipts are kept by FDA to pay for the services provided. Until October 1982, we charged fees for certification of antibiotic products under a similar authority.

In addition, we also collect some fees under other statutory authority, but the fees are not kept by FDA--instead they are deposited in the Treasury. In 1983, FDA collected $223,000 associated with responding to Freedom of Information requests, $78,000 associated with supervising the reconditioning of articles which had been seized or detained under the law, and $60,000 associated with our activities under the Tea Importation Act of 1897. This total amount, approximately $371,000, was deposited in the Treasury. We would estimate that in 1984 and in 1985 our total receipts for these activities would be approximately $375,000 each year.

QUESTION: It seems to me that since the mission of FDA is to protect the consumer, you would be rather limited in the types of services or activities for which you could charge a fee. Have you determined which of your services and activities will be paid for by the users?

ANSWER: There is no question that FDA's primary mission is to protect the consumer. The Agency believes it is clear, however, in the case of new drug evaluation, that both the public and the drug manufacturers benefit from FDA's role in assuring the safety and efficacy of new drugs. We believe charges can be instituted for new drug applications.

Also, New Drug Applications represent just one of a number of similar types of activities that occur at the Food and Drug Administration. Other premarket approval activities at FDA include the licensing of biological products, the review of food additive petitions, the review and processing of premarket approval applications for new medical devices, and the review and approval of New Animal Drug Applications. Depending upon our experience with user charges for New Drug Applications, it is possible that some or all of these other new product approval activities might, in the future, have a user charge associated with them.

QUESTION: When will your new regulations to charge sponsors of new drug applications be published?

ANSWER: Our proposed regulation to charge sponsors of New Drug Applications for some of the costs FDA incurs in reviewing these applications is under review within the Department at the present time. Publication in the Federal Register will occur after review by the Office of the Secretary and by the Office of Management and Budget has been completed.

We hope that the proposed regulations will be published in the Federal Register by late June. If so, there will still be time to allow for comments, and to proceed with the publication with a final regulation before our anticipated effective of October 1, 1984, for these user charges. If the regulation is not in place by that date, we hope to have it in effect as soon as possible thereafter.

QUESTION: Who will have the administrative responsibility for these fees and what is the purpose of the proposed appropriation language in regard to user fees?

ANSWER: FDA will have to administer the fees and account for the collections. Without specific statutory authority, any fees collected under the User Charge Act (31 USC 9701--formerly 31 USC 438a) must be deposited in the Treasury. The proposed appropriation language would provide the necessary statutory authority for FDA to retain these receipts, along with any other user charges collected, and to credit these fees to FDA's appropriation account, so that up to $5 million of FDA's operating expenses can be directly supported by user charges.

FREEDOM OF INFORMATION

QUESTION: I understand that the impact of the Freedom of Information Act on FDA has been substantial and that you have created a FOI staff which has the responsibility for coordinating responses. How large is this staff? How many requests were handled in fiscal year 1983? What was the total cost to the Agency? What are your fiscal year 1984 and 1985 estimates?

ANSWER: FDA currently spends approximately 125 staff years annually handling our FOI workload. Approximately 40,000 requests were handled in calendar 1983. Our total 1983 FOI costs were $4.8 million. We estimate that about the same number of staffyears will be required in 1984 and 1985, with costs at about $5 million. Of course, FDA cannot control the number and types of requests it receives, but the overall workload has been relatively steady in the past few years.

QUESTION: In our hearing last year, we discussed the possibility of raising or increasing the fees you charge for this service. Have your fees been increased? Has any further consideration been given to that?

ANSWER: The Departmental FOI regulations were revised in May 1982 to raise our search time fees from $3/hour to $10/hour for both clerical and professional searches. In this connection, the FOI Act specifically limits allowable charges by agencies to the direct costs of search time and duplication. These allowable charges represent only a fraction of the cost to FDA of responding to FOI requests. Reviewing documents in order to screen for trade secret, personal privacy, or other confidential information takes time and constitutes the majority of the expense involved in complying with the FOI Act.

QUESTION: The Senate has passed Freedom of Information Reform legislation, and it is now pending in the House. What impact would that legislation have on FDA? Would it be helpful or harmful?

ANSWER: One aspect of this legislation is particularly troublesome for FDA. That is the requirement that any potentially confidential business information be sent to the affected party or firm before it is released in response to an FOI request. This "predisclosure notification" would substantially increase the burden of administering the FOI Act and would create a workload that would far outweigh any benefits that might result. This would be a tremendous burden on the Agency's resources because the same scarce manpower devoted to premarket approvals of drugs and devices must be diverted to making decisions about disclosable information in records. An Agency study of FOI operations indicates that in 1982, 35% of FDA records would have been subject to predisclosure notification had such a requirement existed. This equates to a current estimate of an additional $3.7 million, including 103 additional staffyears.

FDA receives or creates many thousands of pages of documents daily--New Drug Applications, New Animal Drug Applications, Medical Device Premarket Approval Applications, Food and Color Additive petitions, and Establishment Inspection Reports. The fact that FDA is both a licensing and a regulatory Agency means that our files contain trade secrets, confidential commercial information, and medical histories of private citizens. Most of this information is required by law to be submitted to FDA before products can be marketed. FDA regulations currently provide for close professional review of such information to determine disclosability, and for consultation with the submitter in case of questionable confidentiality. We have consistently believed that, except in rare instances of a close issue, FDA's scientific and professional expertise is sufficient to recognize genuinely proprietary information and, therefore, that "predisclosure notification" is unnecessary.

TAMPER-RESISTANT PACKAGING

QUESTION: Last year you mentioned that a study was being developed to help assure that tamper-resistant packaging wouldn't interfere with the ability of the elderly and disabled to open drug containers. Has the study been completed? Did you find that modifications in some of the packaging types were needed? What are some of the changes that have been implemented or will be implemented?

ANSWER: The testing was completed in March of this year. The data from the testing is now being analyzed. We hope to complete the analysis in June and will issue a report, including a statistical analysis. But until then, we are unable to say whether any modifications in packaging types will be needed. If the data indicate problems, we plan to bring them to the attention of industry and seek voluntary actions.

SMALL BUSINESS PROGRAM

QUESTION: I'm aware FDA has a small business program within its Bureau of Medical Devices to ensure that your regulations do not place an unnecessary burden on small businesses. Is this office responsible for all agency activities which have an impact on small businesses or just those relating to medical devices? Do you have other agency activities which have an impact on small businesses?

ANSWER: The Division of Small Manufacturers Assistance, formerly in the Bureau of Medical Devices and now in the Center for Devices and Radiological Health, is responsible for activities which have an impact on small business only in the medical device or radiological health areas. This Division consists of about ten experienced professionals and three clerical people, and is the largest single small business effort of the Agency. In addition, the Center for Drugs and Biologics and the Center for Food Safety and Applied Nutrition each have staffs assigned to such efforts.

In addition, there is a Small Business Representative (SBR) in seven regional FDA offices around the country. These SBRs are generalists and deal with small business activities in all industries FDA regulates. By letter, phone or in person, through speeches, workshops, written materials, and on-site visits at the firm's request, the SBRs answer questions and explain the Agency's policies and regulations.

QUESTION: What is the Agency doing to implement the Regulatory Flexibility Act which was designed to reduce the impact of rules and paperwork requirements on small businesses?

ANSWER: As required by the 1980 Regulatory Flexibility Act, all Agency regulations proposed after January 1, 1981 and having a significant impact on small business are evaluated for their effects on small business to ensure that new rules and regulations minimize the burden they place on small entities, and that that they are applied whenever possible in a flexible manner that takes into account the size and nature of the regulated business. Under the law, Federal agencies must prepare an analysis of a regulation's impact on small business that estimates the cost of compliance, the paperwork burden imposed, and alternatives to the regulation which may be less cumbersome. The law also provides for a 10-year "sunset" review of all existing regulations having a major impact on small businesses.

NEW BELTSVILLE FACILITY

QUESTION: From your statement, it appears that construction on your new lab (Module I) is progressing, and as I understand, should be completed in 1986. To what extent are funds available to equip this facility?

ANSWER: All of the fixed equipment for the building, including such items as laboratory casework and fume hoods, is part of the construction contract and will be installed by the contractor. The cost of that fixed equipment is covered by the Buildings and Facilities funds already provided to construct the building.

QUESTION: Will additional funds be needed to fully equip this lab?

ANSWER: Other types of equipment which will be needed, such as mass spectrometers, laboratory scales, furnishings, animal cages, and most of the various other items of equipment needed to operate an animal laboratory facility, will be moved to the new building from Federal Building 8. We are currently in the process of reviewing our equipment needs to determine which items can be moved from Federal Building 8, and which ones will have to be purchased.

QUESTION: What is the timetable for budget requests for this equipment?

ANSWER: Since we expect to occupy the building some time during 1986, any request for additional equipment funds will be considered during the fiscal 1986 budget process, so we could not provide an estimate at this time.

QUESTION: What are the prospects for staffing the new laboratory? Will additional scientists be required?

ANSWER: No. The scientific staff will be relocated from Federal Building 8. Since the space provided by Module I only replaces space in FB-8 that will be vacated when the new building is occupied, and does not provide additional lab and animal holding space for the Agency, the only additional staff required would be those support staff necessary to operate the facility who cannot be moved from Federal Building 8. At the present time, FDA expects to contract for services necessary for building maintenance, security, and other building services, so that no additional staff will be required. After we vacate the space in Federal Building 8, these support costs can be offset by the reduction in space charges we must pay to GSA, but that offsetting savings will not begin until sometime in 1987.

QUESTION. Please provide for the record a status report on Module #2.

ANSWER. Design work for Module #2 commenced on October 12, 1982. Because of information developed through soil borings at the site where the laboratory facilities for the Division of Veterinary Medical Research were to be constructed, the original design concept developed by the project architect in the preliminary working drawings had to be altered. The new concept will be incorporated into the architect's intermediate working drawing submission. We now expect the design of Module #2 to be complete not later than November 1984. Consequently, at whatever point in the future funds are provided to construct Module #2, we will be ready to begin construction, and, two years after that, to vacate our present inadequate facilities at the Beltsville Agricultural Research Center.

NATIONAL CENTER FOR TOXICOLOGICAL RESEARCH

QUESTION: Funds for the design phase for the renovation of Building 53 at the National Center for Toxicological Research (NCTR) in Arkansas, were provided in the 1983 Emergency Jobs Bill. What is the status of the design of this project?

ANSWER: The Architect/Engineering firm submitted the final design for this project on April 2, 1984. After final review of the design by government personnel, the design phase will be complete.

QUESTION: When will the project be ready for bidding?

ANSWER: The bidding process can proceed immediately upon the availability of funds, with award of the construction contract 90 days later.

QUESTION: Briefly, describe this construction project.

ANSWER: The renovation of Building 53 will provide a key segment in the overall development of the Center's total Facilities Plan for supporting the basic research programs.

Building 53 is a two-story, hollow clay tile building with a steel column and beam structure. The building was constructed in 1952 by the Department of Defense as a shower and dressing facility to support the biological operations. The building contains approximately 115,000 gross square feet of floor space.

A construction project was completed in 1976 for the renovation of approximately 22,000 square feet of Building 53 for use as laboratories and animal holding facilities. The concept of the design and utilization of the building was to locate those research programs that required close proximity of laboratories to animal holding rooms in this building with the flexibility to also locate other programs in the area. The design of the facility was to provide general purpose laboratories with special features to meet specific program requirements.

This basic concept has been expanded to the design of the remainder of the building with a greater emphasis placed on flexibility to allow multi-program use of the facility. This project will add forty-one animal rooms on the first floor.

A cage and rack washing facility will be located in the center of the building to support the existing and proposed animal rooms. Special procedure animal rooms at various locations along the north side of the building will permit the scientists to work directly with the animals.

This project contains thirty-four general laboratories. Offices and administrative space for research and support personnel are provided in four areas dispersed throughout the facility. These areas are designed with movable partitions to permit flexibility in meeting changing program requirements.

The central mechanical and electrical systems started with the 1976 construction will be expanded under this project to provide a comprehensive support system. Chiller sizes and air handling size and locations have been designed to provide the capability to utilize laboratory systems as back-up systems for the animal holding areas.

QUESTION: What is the estimate of the total cost of this project?

ANSWER: A total estimate for the project construction cost is $15,766,813. This cost estimate is for a complete facility, including a cage and rack washing area, and an incinerator with pneumatic conveying system for disposal of used bedding, animal carcasses and other toxic materials, as well as $900,000 for casework.

QUESTION: Does this include equipping the building? Will additional funds be needed prior to the occupation of the building?

ANSWER: The estimate of $15,766,813 includes all mechanical equipment and laboratory casework, such as lab benches and fixed cabinetry. The estimates does not include scientific apparatus, which can be moved in from elsewhere in NCTR. Consequently, no additional funding would be needed prior to occupying the new labs.

ANTIBIOTICS IN ANIMAL FEEDS

QUESTION: As you know, for several years now, the Subcommittee has been very interested in the use of antibiotics in animal feeds. FDA proposed several years ago to ban or severely restrict the use of antibiotics in animal feeds, but Congress delayed that action until more conclusive information could be obtained.

The National Academy of Sciences' Study on "The Effects on Human Health of Subtherapeutic Use of Antimicrobials in Animal Feeds" completed in 1980, which is the most authoritative document on the subject of the use of antibiotics in animal feeds, concluded that: "The postulation concerning the hazards to human health that might result from the addition of subtherapeutic antimicrobials to feed have been neither proven nor disproven." Information furnished by your office indicates that the FDA now concludes that "the evidence indicates that the drug resistance could be transferred to humans and could compromise human thereapy with antibiotics and other antimicrobials."

What new information or studies produced since 1980 support the position that the subtherapeutic use of antibiotics in animal feed causes drug resistance which is actually transferred to man and compromises human therapy?

ANSWER: The scientific issues associated with the safety of using antibiotics in animal feeds are very complex. Because of their complex nature, the Agency position must be formed from the summation of many studies rather than from a single study.

The report of the National Academy of Sciences study entitled, "The Effects on Human Health of Subtherapeutic Use of Antimicrobials in Animal Feeds," supports this approach since it was concluded that a single, all encompassing study could not be designed.

FDA will continue to use an evaluation of relevant data from all sources to form its regulatory position. This includes studies published before and after 1980. Five FDA studies have been completed since 1980 and two additional studies are near completion. The results from these projects plus other relevant studies will be reviewed and evaluated by FDA. After that process has been completed, the Agency will be in a position to identify those studies which support or do not support various aspects of the issue.

QUESTION: Antibacterial drugs have been used for more than 30-years at subtherapeutic levels in the feed of animals. The American Council of Science and Health has issued a report on antibiotic use in animal feeds after an extensive study and the report concludes: "At this time, there is no evidence of a current or imminent human health hazard from antibiotics in animal feeds. There is no evidence that discontinuing the use of feed-additive antibiotics would improve human health."

Based on this study and the long history in the use of antibacterial drugs in the feed of animals, what is your comment on the possibility of abandoning the plan of the withdrawal of low level use of antibiotics in animal feeds?

ANSWER: The FDA is pursuing the course of evaluating all relevant literature and data regarding the various safety issues associated with using low level antibiotics in animal feeds. Our regulatory position will be based on this evaluation. Since we do not know the outcome of this review, we cannot comment on the possibility of abandoning the plan to withdraw the low-level use of antibiotics in animal feeds.

QUESTION: Last year you proposed to allow new registrations on subtherapeutic antibiotics on an interim basis until the entire issue can be resolved. Do you now intend to implement this proposal?

ANSWER: The FDA received a number of comments on the proposal from interested persons. No final decision has been made at this time on whether to implement the proposal.

QUESTION: You have indicated that you expect to arrive at a decision on the use of antibiotics in the feed of animals in late 1984 or early 1985. What work is still in progress that will be considered in your evaluation? Will you give us the progress of the FDA studies and an indication as to the specific application of these studies to the transfer of resistant bacteria from animals to humans by the consumption of meat products?

ANSWER: One of the gaps in our knowledge is the quantitation of the effects of drug-resistant bacteria from animals on the bacterial causing disease in humans. One of the primary routes of the transmission of organisms from animals to humans is the food chain. In the FDA study specific bacteria from meat products are being studied along with the same genera of bacteria causing disease in the humans in the community. By doing this intensively and for a long enough period of time one can estimate the quantity of disease in that community being caused by bacteria in the meat supply. Ideally, one would like to study the entire spectrum of genera in the Enterobacteriaceae. Since many of the Enterobacteriaceae are not unique enough to be of much epidemiological value, Salmonella and Campylobacter were selected as models because they are unique enough to be of value.

The FDA study design was established by consulting with international experts from Europe and epidemiologists from the Centers for Disease Control. The epidemiologists from CDC have remained as advisors to the project and have monitored the progress. More specifically, poultry, pork and beef products were sampled periodically in the community and tested for the presence of Salmonella and Campylobacter. During the same time period, isolates of Salmonella and Campylobacter causing disease in humans were collected. Various features on these isolates are being compared to determine if the same strains appear in meat and in human disease. Human cases of salmonellosis and campylobacteriosis were investigated by questionnaire and further microbiological sampling to more clearly define the role of meat and other foods as a cause of their disease. Human controls were also included by obtaining questionnaire data and microbiological samples. Testing of the isolates has included biochemical identification, serotyping, antibiotic susceptibility, and analysis of their plasmid content. These features are being used to differentiate specific strains from the various sources and to determine the plasmid epidemiology.

The final reports are due July 31, 1984.

QUESTION: What will you do if the results of that work are inconclusive? What alternatives are you considering?

ANSWER: Although the results of a single study will very likely be inconclusive for the very broad and complex question dealing with antibiotics in animal feeds and the impact on human diseases, that study may well be conclusive or very significant for a narrower aspect. This has been true for many of the studies that have been examined. There are many studies both from FDA's own work and from the published literature that must be examined, and we will not know until this work is completed what position the Agency must take on this important public health issue.

QUESTION: In 1981 this Committee and the House Appropriations Committee directed the FDA to initiate epidemiological research on the postulated risk to human health resulting from the use of subtherapeutic doses of antibiotics in animal feeds. The FY 1981 House Report on the Agriculture, Rural Development and Related Agencies Appropriations Bill stated:

> "In noting the lack of available information, the expert NAS committee recommended 'that future epidemiological studies ... be carefully planned to fill gaps in our present knowledge and, especially to avoid the errors of ambiguous design and small sample size that have caused such difficulties in interpreting data.'
>
> In view of the NAS recommendations, this Committee remains committed to the earmarking by FDA of $1.5 million in fiscal 1981 for research generating new epidemiological information. Such research should follow the specific suggestions of NAS."

In implementing this directive, the FDA only partially followed the recommendations of the National Academy of Sciences. Why did the FDA not follow the Academy's specific study recommendations which called for four specific epidemiological studies?

ANSWER: The NAS suggested four studies which would help fill gaps in our knowledge. Their recommendations were less specific, i.e., they recommended that future epidemiological studies, whether the ones suggested by them or others, be carefully resolved. An international committee was convened to review the NAS suggestions and develop a program of study. The particular studies underway by the FDA are based on the NAS committee's guidance and the deficiencies identified by the NAS. The particular emphasis of the NAS report and the studies by FDA deal with the epidemiology of human disease as related to contact with animals and animal food products.

QUESTION: Would you compare the specific studies recommended by the Academy and the studies actually initiated by FDA?

ANSWER: The NAS committee recommended that future epidemiological studies, whether the ones suggested by them or others, be carefully planned to fill gaps in our present knowledge and, especially, to avoid the errors of ambiguous design and small sample size that have caused such difficulties in interpretating the data. They suggested four different studies that would fill gaps in our knowledge. One of the suggested studies was to determine the relative contribution of therapeutic and subtherapeutic doses of tetracycline on R factors in the Enterobacteriaceae by administering various tetracycline regimens to animals. Two other studies were suggested to determine the quantity of R factor-bearing Enterobacteriaceae being contributed to humans by animals. One of these studies was a comparison of the occurrence of R factors found in vegetarians and non-vegetarians. The other study was a comparison of the level of R factors found in humans working closely with meat processing (abattoir workers), their families and neighborhood controls. The fourth suggested study was a followup of the two human epidemiological studies. If an association between meat consumption or working with meat and an increased occurrence of R factors was found, the fourth study was suggested to determine the significance of drug-resistant bacteria and causation of disease in humans. The FDA projects address the epidemiological question that the two NAS studies (vegetarians vs. non-vegetarians, and abattoir workers vs. family and neighborhood controls) were to study with a somewhat different approach. The FDA studies utilize a comparison of pathogenic organisms and their resistance features found in meat (Salmonella and Campylobacter) and those found causing disease in humans in the same communities. These results will be used to quantitate the amount of human disease being caused by the resistant and non-resistant pathogens in meat. One of the projects also addresses another NAS recommendation, the study of the epidemiology of plasmid-medicated resistance to antimicrobials.

QUESTION: If the results of your studies provide no conclusive evidence, either to prove or disprove the postulation of a human health hazard, are you prepared to conduct additional research? Will you be prepared to initiate the NAS's specific epidemiological studies recommended, but to date not undertaken? Will you briefly describe what those further studies would address and what funding requirements would be associated with them?

ANSWER: The FDA has no plans at this time to initiate additional research studies on the antibiotics in feeds issue, and therefore cannot predict any needed funding for such research. A complete review of all available information on the subject was conducted during the years 1975 to 1977, and since that time a number of important studies have been conducted by the Food and Drug Administration. Additionally, we have learned a great deal from the National Academy of Sciences (NAS) review and from information in the published literature. The NAS study concluded that no single study would answer the question completely, and the NAS committee suggested a number of areas to consider.

After carefully reviewing the NAS report, an International Committee of experts in the field of epidemiology and infectious diseases, in consultation with FDA, designed a program of study for the Agency. This work included epidemiological studies concerning salmonella and campylobacter organisms. This work will be completed at the end of July, 1984. The work is, in fact, in harmony with the recommendations of the NAS and should prove very useful in helping to decide the issue.

QUESTION: How soon will you be making a final decision on the use of antibiotics in animal feeds?

ANSWER: We interpret your question as asking when we would expect the withdrawals of approval to be accomplished, assuming that after review of the studies FDA decides to proceed with the withdrawal actions. Specifying the amount of time that will be required is impossible at this time. It may be necessary for the agency to prepare and issue new notices of opportunity for hearing. If that occurs, sponsors will, again, have an opportunity to decide whether to seek a hearing and, if so, submit a written request for hearing. If there are such requests, a formal evidentiary hearing would most likely be held, followed possibly by judicial review. In the past, at least several years have been required for all these events to occur.

VETERINARY BIOLOGICS

QUESTION: Did you have occasion last year to investigate any intrastate veterinary biologics manufacturers?

ANSWER: No. No assignments were issued to the Field to inspect any unlicensed animal biologic manufacturers. While FDA did inspect some firms that produce both animal drugs and animal biologics, the basic purpose of these inspections was to inspect the animal drug operations.

QUESTION: How many complaints or problem situations involving unlicensed products were brought to FDA's attention in 1983 and thus far in 1984.

ANSWER: We received three complaints about a haemophilus bacterial vaccine, one through our Denver District Office, one from a trade association, and one from USDA. In none of these instances were we notified of any potential health hazard to either humans or animals with this vaccine.

We also received two reports of possible adverse effects to animals from another unlicensed vaccine. Follow-up investigation by telephone to the practitioners involved resulted in the conculsion that the adverse effects were not associated with the vaccine.

Three complaints about other unlicensed products were received, but no specific problems were reported involving any potential health hazards.

ETHYLENE DIBROMIDE (EDB)

QUESTION: The Environmental Protection Agency (EPA) has suspended the use of EDB as a soil fumigant and as a grain fumigant.

Is there anything else besides irradiation that you know of that can be used as an alternative to EDB?

ANSWER: According to EPA, there will probably not be any single alternative to replace EDB for treatment of citrus and tropical fruits. Alternatives being developed may prove acceptable and feasible for some but not other quarantine requirements. Included are gamma irradiation, fumigation with methyl bromide or phosphine gas, cold treatment and heat treatment.

For grains, EPA currently permits the use of the following alternatives for EDB: aluminum and magnesium phosphide, calcium cyanide, carbon dioxide, carbon disulfide, carbon tetrachloride, chloroform, chloropicrin, combustion product gas, ethylene dichloride, hydrogen cyanide, methyl bromide, methylene chloride, and nitrogen.

QUESTION: What is your timetable on the use of food irradiation?

ANSWER: We have no specific timetable for issuing a final rule to permit the use of irradiation for maturation inhibition of fresh fruits and vegetables, for insect disinfestation of food, and for sterilization of spices. The 60-day comment period has just been extended 30 days to May 16th. So far, we have received over 1,800 comments. We must read, catalog, and review all comments and objections before we can address them and develop a final rule that incorporates any appropriate changes resulting from the comments.

QUESTION: Doesn't the National Aeronautics and Space Administration (NASA) use irradiated foods in their space flights? How can NASA use it when you say it "may be some time before... food irradiation could be in widespread use."

ANSWER: Yes, NASA has used irradiated foods. FDA recognizes how important it is for the space program to have available completely sterilized foods that are palatable and nutritious for short term use. Such a use of radiation sterilized foods by NASA is limited, and accordingly, FDA has not considered it necessary or appropriate to become involved in NASA's limited use of irradiated foods. On the other hand, FDA has evaluated the safety of irradiated foods that comprise a significant portion of the diet of a broad segment of the American population.

SACCHARIN

QUESTION: I understand that FDA has been in the process of a "comprehensive evaluation of over 140 research papers considered directly relevant to the evaluation of the safety of saccharin that have been published since the advent of the Congressional moratorium in 1977." Have you completed your evaluation of this new data?

ANSWER: We are still in the process of evaluating the toxicology literature on saccharin's safety. In addition to the large number of studies already published, the National Center for Toxicological Research has just completed further studies on saccharin's potential tumor promotion activity. A final report on this study is not expected until September of this year.

QUESTION: Given what you know about saccharin as compared to what you knew in 1977, would you proceed to ban saccharin today if there weren't an existing moratorium? (The moratorium was recently reinstated for an additional 2 years and will be in existence until 1985.)

ANSWER: Because this review is not yet completed, we cannot comment regarding regulatory decisions that might be based on this review. However, we are not aware of any scientific data that would eliminate our previously expressed concerns about saccharin's carcinogenic activity and potential human safety consequences from the use of saccharin. If the evidence continues to show that saccharin is a carcinogen, and there were no moratorium, we would proceed with a ban under the food additive provisions of the Food, Drug, and Cosmetic Act.

PACEMAKER LEAD FAILURES

QUESTION: Some problems have recently been discovered with regard to pacemaker leads--the wires that connect the pacemaker with the heart. It has to do with the insulation of the lead and causes an interruption of normal electrical conduction between the pacemaker and the heart. How serious is this problem? What happens if the pacer or lead fails? What is FDA's role in this?

ANSWER: In January 1984, FDA received a report from a physician at Lancaster General Hospital in Pennsylvania of an unusually high failure rate with certain polyurethane (PU) leads manufactured by Medtronic, Inc.

The lead in question had been previously determined by FDA to be substantially equivalent to a pre-1976 device; however, the firm had made many design/ manufacturing changes in the original device without notifying FDA. Medtronic subsequently issued a statement that the PU insulation on certain of its leads may be susceptible to cracking, resulting in intermittent failure of the pacemaker to generate a pulse. Medtronic has stated that the problem involves only its model 6972 PU insulated bipolar ventricular pacemaker leads manufactured between December 1979 and February 1982. FDA is currently investigating to determine if other leads are involved.

Approximately 500,000 people in the U.S. have implanted pacemakers and approximately 150,000 new and replacement implantations are performed each year. Approximately 20 percent of pacemaker wearers are pacemaker dependent. In the event of a pacemaker failure, most of these people would be limited in their activity by a lower heart rate and a general feeling of lethargy. One to two percent would be at risk of death.

A pacemaker lead consists of flexible, insulated wires connected to both the pacemaker pulse generator and the heart. The lead transmits electrical stimuli from the pulse generator to the heart and from the heart back to the pulse generator. Most pacemaker leads are insulated with silicone rubber or PU. Fewer than half of pacemaker wearers have PU leads. Approximately five percent, or 27,000 pacemaker wearers, have a Medtronic 6972 lead. Approximately three percent, or 18,000 pacemaker wearers, have the original 6972 lead.

FDA began learning of problems with PU in late 1981 from published literature and began receiving isolated reports of PU problems in the Device Experience Network in 1982. In November 1981, FDA inspected five pacemaker lead manufacturers for information on PU in response to reports of *in vivo* degradation. In December 1982, the first phase of an *in vitro* FDA-NBS study of stress-induced PU degradation was completed. Results were inconclusive. A follow-up study concluded that unstressed leads did not fail under simulated body conditions.

In Spring 1983, because of complaints of failures of the 6972, Medtronic implemented a retrospective study to gather data on the leads at three medical centers. FDA was not informed of the study findings until February 1984.

In June 1983, FDA implemented animal studies of PU lead degradation. Preliminary results appeared negative, and final leads were examined later that year.

In November 1983, FDA received the first information on failure rates, 21 percent, for Medtronics 6991 PU leads, in a patient population. On January 16, 1984, Lancaster General Hospital reported to FDA a 10 percent failure rate for the Medtronic 6972.

On February 13, 1984, FDA initiated an investigation of failures of Medtronic PU leads. The investigation was later expanded to include all manufacturers of PU leads. On February 20, 1984, Medtronic initiated a recall of 6972 bipolar leads manufactured from December 1979 to February 1982. Medtronic also issued a "Dear Doctor" letter to physicians informing them of an increased failure rate with the original 6972 and suggesting monthly monitoring of patients with that lead. On March 2, 1984, FDA advised Medtronic to cease marketing the revised 6972 until a determination is made on Medtronic's 510(k) notification as to modifications to the original 6972. (The original 6972 is no longer marketed.)

The FDA investigation of all manufacturers of PU pacemaker leads is continuing. Preliminary data confirm a high failure rate for the Medtronic 6972. Also, FDA has contacted several health professional organizations about ways to disseminate information about the problem to physicians and patients.

FDA will try to determine through the current investigations whether the problem with PU leads extends to all Medtronic PU leads or all PU leads regardless of the manufacturer; whether the failure rates will increase, decrease, or stay the same over time; and whether the problem relates to the particular formulation of polyurethane used or design/manufacturing processes employed by the firm.

ORPHAN DRUGS

QUESTION: What is the total amount in your budget request for orphan drugs? How does that compare with fiscal year 1984?

ANSWER: The total amount requested for this program in 1985 is $2,610,000. The estimated amount for 1984 $2,540,000. The increase over 1984 allows for the continuation of the program at its 1984 level.

QUESTION: What amount is budgeted for extramural research in 1984 and 1985? Please provide for the record a breakout of the grants awarded in 1983.

ANSWER: In 1984 and 1985, grants totaling $1 million are planned for Orphan Products. Following is a list of grants awarded in 1983.

GRANT FUNDING OVERVIEW FY 83

Dr. Charles Peterson (WR 2721 in Cystinuria)	$ 60,575
Dr. Jesse Thoene (Pantethine in Cystinosis)	66,952
Dr. Edward Ritvo (Fenfluramine in Autism)	50,147
Dr. D. Martin Carter (Phenytoin in Recessive Dystrophic Epidermolysis Bullosa)	112,019
Dr. Melvin Van Woert (Harmaline in Cerebellar Disorders)	22,350
Dr. Joaquim Puit-Antich (Imipramine in Childhood Disorders)	92,000
Dr. Brahm Shapiro (131-I-MIBG in Diagnosis and Treatment of Pheochromocytoma)	45,235
Dr. James Luce (Mesna in Cystitis)	50,362
TOTAL	$ 500,000

QUESTION: What has been the industry response to the development of orphan drugs?

ANSWER. The response by industry to the development of orphan products in general has been and continues to be quite encouraging as is evidenced by the number of commitments to sponsor orphan products received by FDA. It should also be noted that a number of these sponsor commitments were made prior to the signing of the Orphan Drug Act (P.L. 97-414) by the President on January 4, 1983. The Agency, through the Office of Orphan Products Development, routinely confers with representatives of the pharmaceutical industry to discuss the development and/or possible designation of orphan candidates. There have been approximately 50 inquiries by industry relative to possible orphan designation under the Act. As of March 31, 1984, 11 orphan products have been designated. It is expected that as orphan products are identified and assistance in development is sought, industry will continue to respond in a favorable manner.

QUESTION. Have you encountered any difficulties in implementing the provisions of the Orphan Drug Act?

ANSWER. No, we have not encountered any unusual difficulties in carrying out the provisions of the Act, and implementation is proceeding in an orderly manner.

QUESTION: How many orphan drugs were approved in fiscal year 1983? Please identify.

ANSWER: During fiscal year 1983 six orphan products were approved for marketing by the Food and Drug Administration. The specific products, uses, and sponsors for each are as follows:

Orphan Products Approved by FDA in 1983

Generic Name	Indication	Trade Name/Co.
Sodium Cellulose Phosphate	Prevents formation of kidney stones in certain patients	Calcibind, Mission Pharmacal Co.
Acetohydroxamic Acid	Treats kidney infections	Lithostat, Mission Pharmacal Co.
Hemin injectable	Hepatic porphyrias	Panhematin, Abbott Laboratories
Chenodiol	Dissolves gallstones in some patients, used for cases of high surgical risk	Chenix, Rowell Laboratories
Alpha fetoprotein (Medical Device - not eligible for designation under Orphan Drug Act)	Diagnostic kit for the management and therapy of testicular cancer	AFP Diagnostic Kits Abbott Laboratories
Etoposide	Refractory testicular cancer	VePesid, Bristol-Myers

The above listed products are regarded as orphan drugs under the Food and Drug Administration's general orphan products development program. In order for a compound to be designated as an orphan drug under the Orphan Drug Act (P.L. 97-414), a sponsor is required to make application in accordance with the interim guidelines for section 526 of the Act. The interim guidelines are a temporary means for the Agency to take action under the new law (P.L. 97-414) pending the promulgation of formal regulations. Proposed regulations are expected to be published the latter part of this calendar year and the promulgation of formal regulations as soon as possible thereafter.

SAFETY REVIEW OF SULFITING AGENTS

QUESTION: Your report of February 13, 1984 to this Committee does not mention any deaths due to reactions to sulfite-treated foods. In the last year, I understand that at least two sulfite-related deaths have been reported to the FDA. Would you please comment on this omission from your report?

ANSWER: On March 14, 1984, the Agency was notified of the death of an Arizona man, an asthmatic with various allergies who experienced breathing difficulties while eating in a Mexican-style restaurant and died a few hours later. The death was reportedly caused by the use of sodium bisulfite in food eaten by the man and by two drugs that were used to treat him. The Agency investigated this incident but could not verify whether this death was sulfite-related.

On April 2, 1984, the Agency was notified of the death of another Arizona man, an asthmatic who experienced tremendous difficulty breathing while eating in a restaurant and died within minutes. The death was reportedly caused by the use of sulfiting agents on the salad ingredients. The Agency is currently investigating this incident.

QUESTION: In the face of these deaths, as well as reports of other life-threatening reactions, you have appointed an advisory committee to study sulfiting agents. What time frame will this study committee be given in order to complete their review and present substantial recommendations? What interim measures will FDA provide the public to ensure their safety from this product?

ANSWER: The Ad Hoc Advisory Committee on Hypersensitivity to Sulfiting Agents in Food will be given one year to complete its review and to present its recommendations. Authority for the establishment of this committee will end on March 13, 1985, unless the Secretary of HHS determines that renewal is in the public interest.

In the interim, FDA intends to ensure the public safety by relying on its recommendation of March 1983 to the states requiring that restaurants notify patrons of the use of sulfiting agents at the retail level. The Agency also will continue to monitor any additional adverse reaction reports and investigate these incidents. Concurrently, we are preparing Federal Register documents on label declaration on foods and drugs of the presence of sulfites. We also are considering the overall question of the GRAS status of these ingredients in food. Action may be taken in these two areas independent of the Ad Hoc Advisory Committee, which will concentrate on reviewing possible health effects of sulfiting agents.

QUESTION: How many states have complied with your recommendations in March, 1983, to amend their model food codes to require that restaurants post placards indicating that their food has been treated with sulfiting agents?

ANSWER: We don't know. FDA does not monitor the extent to which the states follow through with its recommendations to states concerning model code interpretations. FDA continues to recommend that all state regulatory agencies use the updated, September 29, 1983, interpretation, "Addition of Sulfiting Agents to Food in Retail Food Establishments."

QUESTION: In August of 1983, you "invited" physicians to file adverse reaction reports on sulfite-containing drugs. Can physicians identify reactions to sulfite-preserved drugs when (as inactive ingredients in drugs) FDA does not require the presence of sulfites to be disclosed on a drug's ingredient label?

ANSWER: FDA has long been concerned with the problem of identifying sulfites in drug products. We already require that the presence of sulfites, as an inactive ingredient, be disclosed on a drug's ingredient label, if the drug is a prescription drug intended for other than oral use. The majority of the drugs that so far have been documented as containing sulfiting agents are either those administered by injection or nebulizer solutions. The sulfites in these drugs must be listed on the drug product label. We are now considering whether to propose a requirement that the presence of sulfites be disclosed on ingredient labels for all prescription drugs for human use, regardless of the route of administration, and for all over-the-counter drugs for human use. We anticipate making our decision on this issue soon.

SODIUM LABELING PROGRAM

QUESTION: What provisions in your curent sodium labeling program ensure that a balanced cross-section of all types of food will bear sodium labeling?

ANSWER: Until the final regulation becomes effective in July, 1985, FDA will rely on voluntary action by the food industry to achieve the goals of its sodium program. The Agency has been encouraged by industry's cooperation to date in this area. Our latest figures from our 1983 survey indicate that quantitative sodium labeling appears on packaged processed foods accounting for an estimated 30 percent of retail grocery sales. This represents a substantial increase over the 1982 figure of 18.9 percent. Of the 51 packaged processed food groups for which detailed sales volume data are available, 42 contained products which provided quantitative sodium labeling. Furthermore, among 7 product categories for which detailed sales data are lacking, 6 now have sodium labeling compared with 4 in 1982.

Under the provisions of the sodium labeling regulation, sodium content would be required to be included in the labeling of all foods that bear nutrition labeling. In a further effort to encourage quantitative sodium labeling, the regulation continues to permit manufacturers to provide information on sodium content alone without triggering a requirement for full nutrition labeling.

Implementation of the requirement that quantitative sodium content information be included on the labels of products bearing nutrition labeling will further increase the availability of packaged processed foods bearing quantitative sodium content labeling.

The results of FDA's 1983 Food Label and Package Survey indicated that, based on data compiled from samples collected between January and June of that year, 55.2 percent of packaged processed food sales consisted of products bearing nutrition labeling information. Of the 52 food groups for which brand-level sales information was available, 46 contained products bearing nutrition labeling. Three of the 6 groups not bearing nutrition information included: (1) salt, seasoning, and spices; (2) condiments; and (3) coffee. Consequently, assuming that products currently bearing voluntary nutrition labeling continue to do so, only 3 processed food groups for which sodium labeling would be considered useful are not represented by products requiring label declarations of quantitative sodium content.

It is noteworthy that industry has expressed interest in providing sodium content information to consumers has been expressed by industry for fresh fruits and vegetables and meat products. Fresh fruits and vegetables are currently exempt from nutrition labeling requirements. Most meat products fall under the jurisdiction of USDA which does not require sodium content information in nutrition labeling.

FDA has made clear the fact that it regards its sodium program as a combination of "first steps" in dealing with the problem of excessive sodium consumption and that the Agency will consider further action if these "steps" are unsuccessful. However, the aforementioned evidence of progress in the area of sodium labeling is the best indicator that the Agency's approach is working.

QUESTION: FDA's latest figures show that 30 percent of FDA-regulated packaged processed foods bear sodium labeling. Your agency has previously stated that it expects this figure to rise no higher than to 50 percent. How can consumers effectively comparison-shop for low-sodium brands when only a random half of the products in a grocery store will bear this information?

ANSWER: The Agency has not indicated that it expects the extent of quantitative sodium labeling on FDA-regulated processed foods to rise to a maximum of 50 percent of retail grocery sales. On the contrary, the Agency anticipates on the basis of the latest figures obtained from our 1983 survey, that a minimum of 50 percent of packaged processed food sales will consist of products bearing sodium labeling as part of nutrition labeling. The fact that more than half of those foods surveyed bear nutrition labeling provided voluntarily suggests that manufacturers view nutrition labeling information as a marketing advantage. Therefore, FDA does not anticipate that manufacturers will chose to discontinue nutrition labeling rather than to disclose sodium content information on product labels. The Agency is also retaining the provision to permit manufacturers of products not currently nutrition labeled to disclose information on sodium content alone without triggering a requirement for full nutrition labeling.

The critical parameter affecting a consumer's ability to comparison-shop for low-sodium brands is not the overall percentage of foods bearing quantitative sodium labeling. Instead, it is the availability of this information on a sufficient number and variety of packaged processed foods in each food category to permit individuals who want or need to reduce their sodium intake to do so. Data obtained from our 1983 survey to estimate the current extent of nutrition labeling and quantitative sodium labeling for over 50 food groups demonstrate that FDA's labeling initiatives are resulting in significant increases in the availability of a wide variety of FDA-regulated packaged processed foods bearing sodium labeling to permit comparison-shopping for low-sodium brands in nearly all food categories for which sodium content information would be useful.

QUESTION: Your advisory panel on Generally Recognized As Safe (GRAS) substances reviewed over 450 additives. In only two instances did the panel conclude that the use of the substances should be restricted. You restricted the use of one of these substances (lactic acid in infant formulas). In the other case (sodium chloride-salt), FDA has neither accepted nor rejected the panel's findings as required by FDA regulations (21 CFR 170.30(f)). What is the current status of FDA's position on this matter?

ANSWER: FDA previously published a list in 21 CFR Part 182 which identified certain food ingredients including salt as generally recognized as safe (GRAS). During its voluntary review of these initial GRAS determinations, in accordance with 21 CFR 170.30, the Agency decided not to revise the regulatory status of salt. FDA has not currently changed its previous decision. Consequently, salt is presently considered to be GRAS for use as an ingredient in food. The decision not to change the regulatory status of salt was explained in FDA's policy notice published in the Federal Register on June 18, 1982. Specifically, FDA noted that salt occupies a special place in our food supply. This ingredient occurs, with other sodium compounds, naturally in food and is added to food directly by consumers as well as by food processors. Although there is evidence that high levels of sodium consumption may be harmful to certain persons predisposed to hypertension or suffering from other sodium-related disorders, scientists do not fully understand the association between sodium and hypertension. Furthermore, dietary intakes of sodium depends on individual selection of foods and the amounts of these foods consumed. Setting some upper level on the amount of salt that can safely be used in a particular food in an attempt to lower overall sodium consumption would, therefore, be almost impossible.

Although FDA has not changed its decision about the regulatory status of salt, it has not ignored the potential problems associated with excessive sodium consumption. The Agency has developed and implemented its sodium program to provide more sodium information to the public and to reduce the amount of sodium in processed food.

The Agency made a regulatory decision that was based on a careful analysis of available scientific evidence and FDA policy. FDA has explained that decision in detail in the sodium labeling proposal and final regulation published in the Federal Register. The policy notice discussed above also contains an analysis of the options not chosen.

OVER-THE-COUNTER-DIET-PILLS

QUESTION: Your report of February 13, 1984 indicates that FDA's review of diet pills has been delayed because it has raised a number of complex issues. Has the agency considered increasing the number of professional work years devoted to this review so that the review can be expedited?

ANSWER: We do not believe that an increase in the number of professional work years, at this time, would expedite the review of over-the-counter (OTC) diet pills. We have conducted a complete review of the issues relating to the safety of phenylpropanolamine. Although the safety issues relating to phenylpropanolamine have raised concern, the current data do not warrant regulatory action outside our normal process. The OTC drug review is a three-step rulemaking process. Our review of phenylpropanolamine is in the second stage of that three-step process--the development of a tentative final monograph. At this time, we have completed the review and evaluation of all available safety data on phenylpropanolamine and have developed a Federal Register notice which presents our tentative conclusions. We expect to publish the notice soon. Twelve months are allowed following publication for submission of new data and information. In December 1983, we informed the drug industry that additional data would be necessary to support OTC marketing of this drug. On April 11, 1984, the drug industry agreed that additional data are necessary and committed itself to conducting the necessary studies.

QUESTION: How many professional work years are being devoted to this matter?

ANSWER: At present, approximately 4 staffyears are being devoted to this matter--all professional.

QUESTION: How many additional work years would be needed to publish a final rule governing the use of these products by the end of 1984?

ANSWER: We do not believe the available data warrant action outside the present OTC rulemaking process. The time periods provided in the governing regulations (21 CFR 330.10) would not allow for publication of a final rule by the end of 1984.

QUESTION: In light of the evidence that is already in on the adverse reactions from these drugs, wouldn't it be appropriate for FDA to require that they be sold only on a prescription basis pending completion of studies that are still ongoing?

ANSWER: It is difficult to establish a direct relationship between use of phenylpropanolamine and the adverse reactions reported in the case reports. The Agency is requiring additional studies to clarify the hemodynamic effects of this ingredient. However, the Agency does not believe the current data justify limiting the ingredient to prescription use at this time. If new information or data become available demonstrating that the continued OTC marketing availability of phenylpropanolamine poses a significant safety risk, we will initiate prompt and appropriate regulatory action either to remove the ingredient from the marketplace or to limit it to prescription use.

ASPARTAME

QUESTION: Since the introduction of Aspartame into the marketplace last year as an artificial sweetener in carbonated beverages, many scientists and consumers have expressed deep concern as to its safety for human consumption. A significant number of complaints of side effects have been documented with symptoms similar to those of abnormal brain activity. ("Individuals report they experience severe, continuing headaches; loss of control of arms or hands or legs; blurred vision, loss of depth perception and other visual problems; loss of memory; speech difficulty; severe suicidal depression; seizures, including grand mal type; and, in women, symptoms that mimic the early onset of menopause.") Who was responsible for the testing of Aspartame? How much time was involved in the testing? Who is the principal manufacturer of this artificial sweetener?

ANSWER: G. D. Searle & Co. of Skokie, Illinois, as the petitioner for the food additive use of aspartame, was responsible for the safety testing of this sweetener. Extensive toxicological testing in various animal species and humans has been conducted and submitted to FDA over a period exceeding ten years.

G. D. Searle currently has production facilities for aspartame in Chicago, Illinois, and a new production plant under construction in Georgia. However, we believe that the Japanese firm of Ajinamoto Co., Inc., continues to provide substantial quantities of aspartame for the U.S. market.

As the question indicates, some scientists have alleged that possible adverse behavioral or other effects may occur from aspartame or the combined consumption of high levels of aspartame and carbohydrate. However, after carefully reviewing all the scientific data, FDA has concluded that the available data do not support these concerns and that aspartame is safe for the regulated uses in food.

With regard to consumer complaints of side effects attributed to aspartame consumption, the Agency is currently conducting an extensive analysis, in cooperation with the Centers for Disease Control, of all known complaints. The purpose of this study is to determine if a correlation does exist between any reported symptomology and aspartame use. Clinical studies in humans, which were evaluated prior to the approval of aspartame for use in carbonated beverages, as well as reports of subsequent studies, do not show evidence of side effects related to aspartame consumption.

QUESTION: Are you considering any warning labels other than the one you currently have regarding restricted use by those individuals who are unable to metabolize its main ingredient--phenylalanine--because of a PKU condition?

ANSWER: FDA is not considering requirement for label warnings in addition to the current requirement for the prominent placement of a notice to phenylketonurics that aspartame products contain phenylalanine. We believe this labeling provides adequate notice to individuals who must restrict their phenylalanine intake.

QUESTION: As I understand it, Aspartame is stable in granular form (such as in table top sweetner packets "Equal") but is unstable when in a liquid form (such as soft drinks). At temperatures of 100 plus degrees fahrenheit, up to half of the Aspartame in soft drinks will decompose within eight weeks' time, losing its sweetness and creating free methanol and other compounds as temperatures increase, thereby generating an adulterated substance. Evidently, the manufacturer of this substance has acknowledged the instability of Aspartame, especially when stored in warehouses at summer temperatures, but FDA has been reported to believe "that storage at these times and temperatures can be avoided by attention to handling and distribution." Is it your position that such "attention to handling and distribution" will, indeed, eliminate the potentially serious risk of adulteration this substance can produce under these conditions? How do you plan to ensure that this does not occur?

ANSWER: The decomposition of aspartame as a function of time, temperature, and pH, as well as the various decomposition products formed and their associated levels of toxicity, are documented in the food additive petitions submitted by G. D. Searle and evaluated by FDA. We have stated that "attention to handling and distribution" can preclude problems associated with more rapid decomposition of aspartame at higher storage temperatures. Significantly, we also stated in this regard that "more important, although this lack of stability might result in a marginally acceptable product, it would not lead to an unsafe product". This conclusion follows from the nature and concentrations of the decomposition products (normal dietary amino acids, methanol and diketopiperazine), and the low levels of toxicity associated with these components. The decomposition products of regulated food additives have been shown to be safe in the premarket safety evaluation, and are not considered to be potential adulterants of food. The toxicological testing of the additives generally supports the safety of the additive's metabolites and decomposition products.

If a potential food additive could decompose to form toxic substances at levels likely to be harmful, the Agency could not approve the use of the substance in food, except perhaps under the most restrictive use conditions. Unlike drugs, there is no risk/benefit equation in the safety evaluation of a food additive. In approving aspartame for use in carbonated beverages, the Agency did not perceive a potentially serious risk of adulteration from aspartame or its decomposition products. We have established in the safety evaluation of aspartame that risk from this type of adulteration is not a problem.

QUESTION: What chemicals, once Aspartame has decomposed, have you identified as hazardous? Have you been able to identify all of the chemicals generated after decomposition? Is it true that as much as 40 percent of the remaining decomposed product has not yet been identified in scientific testing?

ANSWER: The identity of aspartame's decomposition products is well established even at temperatures above those likely to be encountered in typical beverage storage conditions. The petition for the use of aspartame in carbonated beverages included the results of extensive stability studies on beverages stored at various temperatures, up to 131°F, for periods up to 52 weeks. Essentially all of the analyses of beverages stored at 86°F for up to 40 weeks accounted for 90 to 100 percent of the originally added aspartame in terms of the identification and quantification of the decomposition products and aspartame. These components of decomposition were those expected: the amino acids phenylalanine and aspartate; the methyl ester of phenylalanine; the deesterified dipeptide diketopiperazine (DKP); and methanol. The toxicological profiles of these substances are well known, including that of DKP for which the petitioner conducted chronic and reproductive bioassays.

The contention that 30 to 40 percent of the aspartame decomposition products have not been identified is misleading, because it focuses on certain of the test results at the higher temperatures in which the analyses were not as complete as those at 86°F. The more complete breakdown at the higher temperature is not expected. However, based on the sum of the results of the decomposition studies reviewed by the Agency, the chemical similarity of aspartame to natural proteins, and the known toxicological and metabolic properties of these substances, the Agency concluded that sufficient data were available to judge the safety of the decomposition of aspartame.

QUESTION: I understand that eight months after Aspartame had been approved for use by the public there were so many complaints of side effects being registered with FDA, that you instituted a formal interview process, including field investigations using a 14-page questionnaire. Exactly how does the procedure work?

ANSWER: The FDA did design a special questionnaire to gather details from people reporting adverse reactions which they attributed to products containing aspartame. The questionnaire was carefully designed with the cooperation of the Centers for Disease Control to reveal any possible correlation between aspartame and adverse effects. The responses to the questions are being obtained by FDA field investigators who will interview each of the identified complainants. After all of these reports have been completed, they will be analyzed to see if any particular symptom or affliction occurs frequently enough to consider that its occurrence may be linked to aspartame intake, or to a combination of aspartame and other pre-existing medical problems or medications.

Shortly after the approval of aspartame for use in carbonated beverages, the media gave widespread coverage of anecdotal reports from various sources that the use of aspartame could lead to adverse side effects. It is not clear to FDA to what extent the media coverage of these anecdotal reports might have contributed to the current level of consumer responses to aspartame.

QUESTION: How many complaints, spanning the entire spectrum of side effects, have you received to date?

ANSWER: To date, the FDA has received approximately 600 complaints.

QUESTION: Would you please list the types of complaints, from minor to those you would consider of a more severe nature?

ANSWER: The types of complaints attributed to aspartame are diverse and do not appear to follow any consistent clinical pattern. The signs and symptoms which are described in most of the complaints are largely a reflection of very common complaints of a medical nature found in our society. These complaints of symptoms attributed to aspartame range from headaches, diahrrea, dizziness, and skin rash, to disorientation, epileptic seizures, and fetal death.

QUESTION: Since the level of use of this substance varies, have you yet found a correlation between the amount of substance used to the type of side effect?

ANSWER: To date FDA has no information to suggest that any correlation exists between aspartame intake and any adverse physiological responses. The questionnaire referred to above is designed to expose such a correlation if it exists. Prior to the approval of aspartame for carbonated beverage use, the Agency reviewed the results of the clinical studies at consumption levels in considerable excess of the highest estimated daily exposure of aspartame from all food uses. These studies included a listing of adverse effects which the study participants recalled while receiving aspartame. The adverse effects reported in these studies were the same ones often reported; regardless of whether the subjects are taking a test substance or not. No strong or consistent pattern of adverse effects was noted.

QUESTION. It is also my understanding that the soft drink industry, which is acutely aware of the instability of Aspartame in liquid form, is already marketing a combination of both Aspartame and saccharin to ensure Aspartame's continued sweetness. Have there been tests conducted in order to establish the safety of the combined substances, such as to determine whether an unexpected chemical could be generated which may be hazardous?

ANSWER: The Agency is not aware of such tests that have combined Aspartame and saccharin.

QUESTION: Do you believe such tests are warranted? If not, on what do you base this judgment?

ANSWER: FDA does not have evidence to suggest that the toxicological testing of combinations of aspartame and saccharin are necessary. We do not believe such tests are warranted. This judgment is based on the observation that food additives whiich have been shown to be individually safe in animal tests are normally saf in combination. If this were not the case, no mixing or simple combinations of food additives could be authorized unless each and every particular combination had also been demonstrated as safe in toxicological tests. Clearly, given the thousands of regulated food additives, any number of which are freely combined in foods without adverse effect, any requirement to test combinations prior to use would be hopelessly burdensome and without scientific merit. FDA could only require such testing if we were to suspect that there was a strong possibility a particular combination would form a new and unknown chemical entity. We have no reason to suspect that situation in this case. Of course, saccharin itself has been shown to cause cancer in animals.

QUESTION: Evidently, Aspartame is one of the first of a family of compounds that will be introduced into the food supply as sweeteners over the next generation. Is it FDA's intention to obtain the proper data needed to evaluate the safety of the products that are coming?

ANSWER: Yes, under very specific requirements of the Food Additives Amendment to the Federal Food, Drug, and Cosmetic Act, FDA must require data from investigations demonstrating that a proposed new food additive is safe prior to its introduction into the American food supply. The data required to establish safety for the proposed use are carefully reviewed by Agency scientists. As spelled out in our "Redbook" ("Toxicological Principles for the Safety Assessment of Direct Food Additives and Color Additives Used in Food", FDA 1982), the tests required by FDA to establish safety are generally those well-established toxicological tests required and accepted by the scientific community, and any additional or special testing which might be required to answer unusual or unresolved questions which might arise during analysis of earlier test data.

QUESTION: Do you feel FDA is using the most appropriate criteria for judging the safety of these product?

ANSWER: The Agency currently employs virtually all of the established toxicological test mehtods. For an additive that has a very high human exposure potential, these includes chronic and subchronic tests in various animal species, metabolic tests in animals and humans, various reproductive tests, and in vitro mutagenicity testing. FDA believes that we are using the most appropriate criteria for judging the safety of food additives. However, beyond certain percribed tests, petitioners are free to use any appropriate test method they choose to resolve particular safety questions which may arise in demonstrating safety.

QUESTION: Are sufficient funds available for such studies?

ANSWER: Safety studies supporting a food additive are normally conducted at the petitioner's expense, since, for a new food additive, it is the petitioner's responsibility, not FDA's, to establish the safety of the substance before FDA can approve its use. FDA's own research on food additives is generally devoted to products that have been on the market for some time, such as saccharin, when new data suggests that further study is needed.

QUESTION: Given the fact that there are still so many unanswered questions regarding the safety of this substance, wouldn't it be wise to hold public hearings on this matter?

ANSWER: FDA does not agree that there are unanswered questions regarding the safety of aspartame. We have denied requests for further hearings beyond those held by the scientific Public Board of Inquiry in 1980, because the objecting parties failed to provide any evidence to support a broad range of allegations. Should credible evidence on potential adverse effects from the regulated use of aspartame come to light, the Agency is prepared to take whatever action is necessary to protect the public health.

ARTHRITIS MEDICINES

It has been reported that the Ciba-Geigy Corporation had been accused by The Health Research Group, of possible criminal violations of the Federal drug law "in suppressing knowledge of at least 400 deaths overseas among users of two widely prescribed arthritis and anti-inflammatory medicines," specifically, phenylbutazone, which is sold as Butazolidin, and oxyphenbutazone, which is sold as Tandearil.

It has been estimated that 135 million persons worldwide have used these drugs and that The health Research Group has estimated that these "arthritis drugs have been responsible for 3,100 deaths in the United States and 7,400 more abroad..." Also mentioned was the fact that the Food and Drug Administration has held a hearing on this matter and is in the process of making recommendations to the Department of Health and Human Services which began a serious study into this matter December 28, 1983.

QUESTION: What is it in these drugs that causes such a high morbidity rate? Are there less severe reactions to these drugs? Are they of a substantial number? Are there certain people who are more susceptible than others to the serious effects of these drugs? Will these drugs continue to be used in the United States? Are adequate safeguards being used to screen individuals who might be predisposed to a reaction to these drugs? Are individuals informed of the potential risk when prescribed these formulas? If an individual is found to be susceptible to these two drugs, is a safer drug substituted in those instances? Are you at the liberty to discuss FDA's basic recommendations to the HHS study committee?

ANSWER: The Food and Drug Administration is well into the study of phenylbutazone (Butazolidin) and oxyphenbutazone (Tandearil) as the result of the petition filed by Health Research Group (HRG) requesting that the Secretary of Health and Health Human Services declare the drugs imminent hazards to the public health under section 505(e) of the Food, Drug, and Cosmetic Act. The report accompanying the recommendation to the Secretary will include a discussion of the background of the drugs, risk analyses, benefits and current usage of the drugs. Thus, the report discusses all areas raised regarding the drug products.

The Report is not yet final. Therefore, we cannot respond to these questions concerning the drugs, pending release of the report and the Agency's recommendation to the Secretary.

QUESTION: What has been the reaction of health agencies in other countries where this has been an occurrence?

ANSWER: The reaction of health agencies in other countries has been varied. For example, Switzerland reviewed the two drugs in 1983 and concluded that no marketing change was warranted. West Germany has proposed labeling restrictions, while England and Israel have proposed to ban oxyphenbutazone and to restrict use of phenylbutazone to the treatment of ankylosing spondylitis by hospital based physicians. Norway had proposed to ban use of both drugs.

QUESTION: What is the current status of litigation in this matter?

ANSWER: On April 10, 1984, in the United States District Court for the District of Columbia, HRG filed an action for declaratory relief which alleges that the delay in responding to HRG's imminent hazard petition is unlawful.

HRG requests an order directing the Secretary to grant or deny their imminent hazard petition within seven days of the court order The government's answer is due on June 11, 1984.

NICORETTE

QUESTION: I understand that FDA has just recently approved a new prescription drug (a gum) called Nicorette which supposedly will help to "alleviate withdrawl symptoms experienced by many smokers addicted to cigarettes..."

The gum was originally "developed in Sweden 12 years ago and marketed there and in Britain and Canada [and] doubled the success rate for those quitting smoking when used with a cessation program."

It has already been noted, howeve, that "Company and FDA officials [have] said that Nicorette should not be used by pregnant or nursing women, persons with certain heart conditions, [and] those with a disease that makes chewing difficult, and nonsmokers." Other side effects mentioned are that "users might experience sore jaws and some traditional nicotine side effects such as lightheadedness" and that the "gum might have to be used for three months before tapering off." Also, that "officials [have] said Nicorette would normally not be addictive." How long has FDA had this drug tested in the United States? Are you satisfied with the results? Are you still planning to continue testing of the gum?

ANSWER: The Agency believes a distinction that must be made between Nicorette and other prescription drugs.

Specifically, Nicorette gum is intended to be used only by cigarette smokers who are attempting actively to give up their smoking habit. Nicorette contains an addictive and toxic substance, nicotine, that is found in tobacco smoke and is responsible, at least in part, for maintaining the smoking habit. The value of Nicorette is predicated upon the conclusion, supported by compelling evidence, that Nicorette cannot be evaluated by the usual standards applied to assess the toxicity and risks of the typical prescription drug product. Indeed, the risk of Nicorette must be evaluated in terms of a single question. Is the individual using Nicorette as directed at greater or lesser risk than the same individual smoking cigarettes? We believe that the answer to this question is obvious.

The side effects of Nicorette are essentially those of either nicotine itself or those associated with the act of excessive gum chewing. Clinical studies document that gum chewing commonly causes small sores in the mouth, aching of the jaws, and is often accompanied by air swallowing which, in turn, may lead to eructations (belching). The other common consequence of chewing Nicorette too rapidly are those that are associated with consuming too much nicotine.

Most important, however, is the fact that the risks of chewing Nicorette are of far less concern that the risks of smoking, even if both activities provide the same amount of nicotine. It is important to remember that cigarette smoke contains, in addition to nicotine, many harmful substances (e.g., coal tars, ionized molecules, and foreign particulate matter) which may be quite injurious to the lining of the respiratory tract both acutely (bronchitis) and chronically (cancer).

The FDA does not test drugs. The FDA has granted permission for investigators to conduct clinical experiments on the effects of Nicorette gum. In particular, one academic investigator has studied Nicorette for almost 10 years; the commercial manufacturer of the drug, Merrell-Dow, has had permission to evaluate the drug domestically since June 24, 1980.

Under the Federal Food, Drug, and Cosmetic Act, FDA could not have approved the NDA for Nicorette unless it was fully satisfied that substantial evidence demonstrated that Nicorette is safe and effective for the claims made in its labeling. Thus, FDA's approval action signifies it is fully satisfied with the results of the testing program conducted both in the United States and abroad. The FDA has made no demand that any further testing be continued; however, the firms and individual investigators continue to investigate Nicorette.

QUESTION: Since the FDA has admitted that there are side effects with the use of this gum, will adequate labeling and sufficient information be given to each potential user in order to screen those susceptible away from its use?

ANSWER: The labeling fully identifies the risks associated with the use of Nicorette and the comparative risks of side effects of nicotine and smoking. We believe that the labeling provides adequate information for the physician to advise patients fully and correctly about the risks and benefits of the use of the gum.

QUESTION: Specifically what side effects have been shown by studies here or abroad by pregnant and nursing women?

ANSWER: Again, the response to this question depends upon the context of Nicorette use and cigarette smoking. Nicorette has been reported to have no effects on pregnancy that are distinguishable from those of nicotine. There is a large literature about the potential effects of nicotine on the fetus and the use of Nicorette, like smoking, is proscribed during pregnancy.

QUESTION: What other problems have health officials in Sweden, Canada, and Britain had reported to them regarding the use of Nicorette? Have these been resolved?

ANSWER: We are unaware of any problems reported throughout the world that have not already been recorded in the package insert of the marketed drug product Nicorette. These issues were reviewed prior to the product's approval, which included review of the possible side effects already noted.

QUESTION: What is meant by the statement used in the article that, "officials said Nicorette would normally not be addictive?" Is this gum addictive? To what extent?

ANSWER: Again, the answer to this question must be made in the context of who uses Nicorette. There is good reason to believe that smokers persist in their habit of smoking, at least in part, because they are dependent upon the nicotine provided by tobacco smoke. Consequently, Nicorette can serve as a substitute source for the nicotine to which they are addicted. In this sense, Nicorette is not a primarily addicting substance. However, Nicorette, used by a naive subject might prove to be addicting. Post-marketing experience will provide the information needed to answer this question definitely and Merrell-Dow is conducting post-marketing surveillance studies to address this and related issues. It seems likely, however, that the problem should not be great. Indeed, reassurance can be taken from the fact that in experimental trials of human subjects which compared the effects of cigarette smoke, intravenous nicotine, and Nicorette, Nicorette proved to be the least addictive of the three nicotine sources. Finally, in some countries, Nicorette is sold directly to the public without any recognized substantive impact upon the public health.

QUESTION: Also mentioned was the fact that the use of the gum should be for a period of "three months before tapering off." Is this due to its being addictive?

ANSWER: The aim of a treatment program employing Nicorette is to have an individual give up a smoking habit. The greatest gain possible would be for a smoker to give up smoking and nicotine entirely. A lesser gain, although a gain nonetheless, would be for a smoker to give up cigarettes and continue to chew gum. The directions given in the labeling are intended to urge the physician and patient to achieve the greatest gain possible. However, in the worst case, even if the patient remained on Nicorette, it is our judgment, shared by our expert advisors and other experts in the field, that Nicorette is a safer long term source of nicotine than cigarettes.

QUESTION: This also gives me concern in that I wonder if users won't be tempted to use such a prescription in an on again, off again fashion, seeking the prescription from a doctor whenever the smoker wants to try to stop smoking again and again? Could this pose serious side effects over a period of years with this type of use? If this could cause long term side effects how could such use be curbed?

ANSWER: This scenerio is possible, of course, but is not likely to represent a serious risk. It may be that some patients will not follow the directions for use given in the approved package insert for this drug product. Often, very useful drugs may be used in a way not recommended in the product labeling. There is little that the FDA, a regulatory agency empowered to assess the efficacy and safety of drugs prior to their marketing, can or should do to control how practicing physicians and patients actually use the approved drug product. In any event, we see no risk in a cigarette smoker substituting Nicorette gum for smoking.

ACCUTANE

It has been reported that this new drug, which is specifically for the treatment of recalcitrant, severe cystic acne, and which has been on the market only 18 months, is producing severe side effects in some of its users, which number over 100,000 currently, with one-third of them being women. These side effects include "16 cases involving major birth defects and 20 spontaneous abortions." Other serious side effects just becoming known to the public, are that "Accutane also has been associated with pseudotumor cerebri, a condition that mimics a brain tumor" and "poses a risk of permanent eye damage." It also causes "visual problems associated with corneal clouding, inflammatory bowel disease and a common but far less severe chapping of the lips."

Further, that "when the FDA approved use of Accutane, a derivative of Vitamin A, it was thought to pose a serious risk of birth defects because of evidence that high doses can cause malformations in several animal species."

Evidently, FDA did initiate labeling and gave warnings to patients in the form of brochures against the use of this drug by pregnant women, and later, sent further warnings to "500,000 doctors and pharmacists" giving a "new urgency to the pregnancy warning" of before.

QUESTION: Who was responsible for the testing of Accutane? Was this testing contracted out? How much time was involved in the testing? Who is the principal manufacturer of this drug?

ANSWER: The manufacturer of Accutane, Hoffman-La Roche Inc., was responsible for testing the drug. Testing was performed by several highly-qualified physicians, all of whom were university affiliated Testing was begun by the sponsor in 1976.

QUESTION: If the testing evidenced, as has been reported, "malformations in several animal species" and initial labeling and patient brochures were given along with the drug, why then were there so many cases involving birth effects? Were these labels not specific enough as to the hazards involved?

ANSWER: The birth defects were probably due to several factors including the failure of the contraceptive measure, failure of the patient to heed the warnings of the physician and in some cases the warning may not have been sufficiently emphasized by the physician. In our opinion, the labels were adequate.

QUESTION: I'm also concerned about the residual effect of Accutane. Is there evidence that laboratory animals can produce normal offspring after giving birth to abnormal offspring as a result of exposure to Accutane?

ANSWER: The Hoffman-La Roche company has performed a study in rats, in which high doses of 13-cis retinoic acid were given, sufficient to cause abnormalities in almost 100% of offspring. After delivery the female rats were mated within 24 hours. The subsequent offspring were normal.

QUESTION: Are you still receiving reports of these and other side effects? If so, what types of complaints have you been receiving? Have more cases of birth defects been reported other than the initial 16?

ANSWER: The adverse reaction reports being received are the same as those listed in the labeling for Accutane. Our last report indicated that there have been 16 birth defects.

QUESTIONS SUBMITTED BY SENATOR McCLURE

SURVEYS OF FOOD PROCESSING PLANTS

QUESTION: FDA has undertaken an extensive survey of potato processing plants to measure the amount of bacteria occurring in the processed potatoes. As you are aware, both Senator Symms and myself have corresponded with your office requesting that you justify the need for such a survey or cancel the survey. The survey is presently underway and six potato processing plants in Idaho have been surveyed thus far. Justification for the survey has not been adequate, I still fail to see the need to test in process when the final determination of the safety of the food is made on the final product. How much money is being spent by FDA in these surveys? What is the total amount spent by the Agency on this kind of work in the past 5 years? What proportion of the Foods program budget do these funds represent?

ANSWER: The annual cost for the potato processing plants survey is about $840,000. Since 1978, we have conducted a total of six similar surveys for different food products, at a cost of $4,200,000. Funds devoted to these surveys represent approximately four-fifths of one percent of our total Foods program.

QUESTION: Didn't FDA bring and lose enforcement cases against food companies based on measurements of bacteria? With this history, why is the Agency continuing to expend valuable resources on such an approach?

ANSWER: Although FDA has prevailed in many cases brought under section 402(a)(4) of the statute, the Agency also has lost cases. The best known cases that we lost are United States v. General Foods Corporation, et al., and United States v. Article of Food...Instant Mashed Potatoes, both of which were decided in 1978 and involved levels of bacteria. In each case the court held that the government's evidence was insufficient to show that insanitary conditions existed at the plant. Section 402(a)(4) provides that a food may be adulterated if it has been prepared, packed, or held under insanitary conditions whereby it may have become contaminated with filth. Under this provision, the processing of foods under insanitary conditions may be unlawful even if no actual health hazard ensues. FDA has brought cases if filth is present in a plant's manufacturing process to such an extent that the resulting food may be contaminated. The presence of certain types of non-pathogenic bacteria in foods may be evidence that the food has been prepared or processed under insanitary conditions.

FDA instituted the survey of potato processors in an effort to establish, in consultation with industry, defect action levels--DALs--for bacteria on processed potatoes. This program is one of a series of surveys that FDA has taken of various parts of the food industry. Others are the breaded fish, peeled shrimp, and cream style pies segments of industry. The surveys are part of FDA's continuing efforts to monitor sanitary conditions in the food industry. Once a DAL is established, FDA may use it to determine when to take enforcement action under the FD&C Act. These programs help give FDA to type of evidence the courts, in the Instant Mashed Potatoes and General Foods cases, said we need.

QUESTION: Do these bacteria present a direct health problem to consumers?

ANSWER: Probably not. The program concerning potatoes, like the programs or surveys conducted for other food products, are designed to determine what the bacteria levels are at various processing points, in plants which are operating under sanitary conditions. A DAL will be established from this data and will reflect the industry norm. Bacteria present in a given plant's manufacturing process that exceeds this industry norm may indicate that the potatoes are processed under conditions in which they may have been contaminated with filth and, therefore, may be in violation of section 402(a)(4).

QUESTION: How many mcirobiologists does FDA employ and what portion of the Agency's laboratory facilities are being devoted to this work? What other work do these microbiologists do in addition to these surveys?

ANSWER: FDA employs about 280 microbiologists in various locations. About 100 of them are employed in the field organization, with 20 at the Minneapolis Center for Microbiological Investigations and the rest spread around the country in various field laboratories. The Center for Food Safety and Applied Nutrition employs 52 microbiologists at Federal Building 8 in Washington and at its Cincinnati research center. The Center for Drugs and Biologics has about 80 microbiologists, who are divided among the Parklawn Building in Rockville, Federal Building 8, and the biologics facilities at the NIH campus in Bethesda. The National Center for Toxicological Research has 15 microbiologists, and the Center for Veterinary Medicine has 8, located in the Parklawn Building and at the veterinary research facility in Beltsville. The Center for Devices and Radiological Health has about 25 at its facilities in Rockville and Silver Spring, Maryland.

We do not have precise figures as to the amount of laboratory space devoted to microbiology work, since in many cases this work is done in laboratories which conduct various other types of work as well. Moreover, many of our research efforts cannot be classified as falling into one specific area of science, but rather they involve a number of disciplines such chemistry and pharmacology in addition to microbiology. Overall, however, we estimate that under 10 percent of our total laboratory facilities are devoted to microbiology work.

Fourteen of our field laboratories perform microbiological examinations in support of the field's regulatory mission, both in the domestic and import area. These include examinations of foods, drugs and cosmetics for pathogens, indicator organisms of filth contamination and examinations for some common food poisoning organisms including Clostridium botulinum.

In addition to the survey work, the microbiologists in Minneapolis serve as a national resource, offering support to the field laboratories in emergency situations, coordinating pathogen surveillance testing of foods, sterility testing of drugs and medical devices and microbiological research on isolation of microorganisms from foods.Headquarters associated microbiologists conduct research on a wide variety of food microbiology areas such as pathogenic mechanisms, detection methods, development of pathogens, and seafood-associated microorganisms.

The Division of Microbiological Services at NCTR has a very different role. The primary objectives and functions of the Division of Microbiological Services at NCTR are to conduct microbiological surveys on animal populations and their environments; to detect and identify organisms in the animal population which could adversely influence experimental results; to anticipate and prevent entry of harmful organisms into the animal colonies; to determine the adequacy of NCTR systems and procedures to maintain controlled conditions, and to study biodegradation of selected toxins.

Microbiologists in the Center for Veterinary Medicine and the Center for Drugs and Biologics conduct a variety of research efforts and product testing activities, and also participate in the review of new drug products. Many human and animal drugs are designed to act on microorganisms, and it is necessary for FDA to study the mechanisms of such products and assure their effectiveness. In addition,microbiologists review new product applications as well as conduct laboratory tests to assure that other types of products are not contaminated by microorganisms. In the same vein, microbiologists in the Center for Devices and Radiological Health review device applications to evaluate the sterility and the effects on microorganisms of medical devices.

QUESTION: The Agency has awarded a contract to the National Academy of Sciences to develop recommendations on the use of bacteria as an indicator of food quality. What were the NAS recommendations? Since the results of this study weren't available last year, why has the Agency started its survey program? Shouldn't the NAS study results have been taken into account in deciding to conduct the survey? How much did the NAS study cost?

ANSWER: The contract is administered by the Department of Commerce, National Marine Fisheries Services, and was cofunded by Department of the Army, USDA, and FDA. A subcommittee on Microbiological Criteria was established by NAS in 1980 and was scheduled to be completed in the fall of 1983 but has been granted a no-cost extension until May 31, 1984. This subcommittee completed its work in January and the lengthy final report is now under review by the Academy prior to release. We anticipate availability of the document in June of this year. The Agency actually started its in-line survey program during 1978. We have conducted five similar food processing plant surveys of products that are likewise subject to bacterial contamination. We have published a defect action level guideline for raw breaded shrimp and expect guidelines in the near future for four other products, cream-style pies, peeled shrimp, breaded fish, and fresh crabmeat. Because of the real need for quantitative data and the time required to develop these data, the Agency has undertaken these surveys at a rate of one per year.

Microbiological criteria, in one form or another, have been under study by the Agency for more than a decade. During this time, microbiological quality standards, i.e., criteria which provide an end product requirement of a numerical maximum number of bacteria allowable, have consistently met with support from consumers and numerous objections, primarily from the food industry. The Agency abandoned this approach in 1978 and awaits NAS comment on the regulatory applicability of microbial standards. Microbiological in-line criteria surveys were initiated in 1979 as an alternative approach. The completed study of in-line sampling of the breaded shrimp industry has been announced as a Defect Action Level. The NAS subcommittee, which began its work in 1980, is aware of the Agency's in-line criteria concept which measures relative change in microbial levels during processing and will undoubtedly speak to this approach in their pending report. The study cost $240,000 over 3 years, of which FDA's contribution was $75,000.

QUESTION: What is the relative priority of the microbiological survey work in comparison with other activities in the foods program?

ANSWER: While there are other activities in the Foods Program that are higher in priority, FDA considers the microbiological survey work to be very important.

QUESTION: How does the Agency plan to use the results of the survey of potato processing plants? Will FDA propose regulations establishing standards for bacterial levels in foods? If there is no health hazard, what benefit would these requirements produce?

ANSWER: The results of the Dehydrated Potato Plant Survey will be used to objectively evaluate industry compliance with Good Manufacturing Practices (GMPs). Since the Agency has been criticized for not being able to correlate microbial levels with sanitation aspects of a processing firm, we intend to propose a regulation to establish a microbiological defect action level, similar to the one we have published for raw breaded shrimp. This will provide a guideline for the Agency and the industry as well. We are confident that the study will provide a sound and fair measurement of the conditions under which this food is processed.

RED NO. #3

QUESTION: At a recent meeting of the International Joint Committee on Food Additives, the FDA representative from the U.S. was the only one to support a ban on the use of Red Dye #3. All other countries present requested more definitive proof of the dye's harmfulness. FDA's treatment of the issue has proven to be detrimental to many industries which use Red #3. How do you justify this, if the harmfulness of the dye is still in question?

ANSWER: First, FDA did not have a representative at the recent meeting of the FAO/WHO Joint Expert Committee on Food Additives (JECFA). Membership in this meeting is made up of panels of experts chosen by the secretaries from FAO or WHO. Each meeting is _ad hoc_ and experts who are invited to participate agree that they are attending as individual experts to the sponsoring organization which eventually publishes a report of the meeting. In addition, JECFA does not have regulatory responsibilities. Indeed, each nation must act in accord with its own laws.

FDA is, of course, required to adhere to the Federal Food, Drug, and Cosmetic Act (FD&C Act), including the Delaney Anti-Cancer Clause. The FD&C Act requires that the color additive be shown to be safe, not that its harmfulness be established. The situation with FD&C Red No. 3 is that scientists in FDA's Center for Food Safety and Applied Nutrition, as well as a panel of scientists from the National Toxicology Program (NTP), which peer reviewed the data, have concluded that the color additive has been shown to be a thyroid carcinogen in rats. Indeed, the JECFA also concluded that Erythrosine (FD&C Red. No. 3) is a tumorigin and that mechanisms by which tumors are caused have not been elucidated.

Arguments have been made by the petitioner that the carcinogenic effect of FD&C Red No. 3 is caused by a secondary effect on the thyroid gland. However, both FDA scientists and the scientists on the NTP panel agree that a secondary cancer mechanism has not been demonstrated. Although industry representatives have indicated that they are performing studies to address this issue, FDA seriously doubts that the experiments now underway will establish the safety of FD&C Red No. 3 within the meaning of the Act. Even if these experiments were successful in determining the carcinogenic mechanism, they would still have to establish a threshold below which the use of the color additive would be safe. Given the regulatory history of FD&C Red No. 3 (including the many delays in deciding on the safety of the use of this additive), FDA would be seriously criticized, and probably challenged legally, if it decided to wait for the necessary long period of time needed for the completion of studies that are not likely, in FDA's judgment, to resolve the questions about the safety of this color additive.

FD&C Red No. 3 and its lakes are provisionally listed (i.e., they have never been permanently approved) for use in cosmetics and ingested drugs. The lakes of FD&C Red No. 3 are also provisionally listed for use in foods, although other food uses, such as cherries were approved some years ago. For a color additive and its lakes to continue to be provisionally listed, the Agency must find that their continued use is consistent with the public health. Based on the requirements of the FD&C Act and the available evidence on the safety of this color additive, FDA and the Department of Health and Human Services are currently considering whether FD&C Red No. 3 can continue to be provisionally listed. FDA recently extended the closing date for the provisional listing of FD&C Red No. 3 until June 4, 1984, to provide a short period of additional time to consider the complex legal and scientific issues raised by the petitioners and other interested groups about the continued use of this color additive.

QUESTION: In enormous quantities, Red No. 3 may be "carcinogenic," but then again, so is selenium, a vital nutrient. There apparently must exist a "threshold" or level at which a "carcinogen" is no longer considered harmful. Is this threshold to be determined by the state-of-the-art science, or by arbitrary bureaucractic decisions?

ANSWER: Clearly, all decisions based on science should be based on sound science and good scientific data. Scientists do not agree, however, that thresholds below which exposure is "safe" exist for all carcinogenic effects. FDA has nonetheless stated that there may be substances when administered at high doses, cause an effect (such as irritation or a metabolic perturbation) that leads to cancer but that are safe when administered at some lower level.

In the absence of data that clearly establish a threshold, however, FDA has consistently concluded that a substance that causes cancer is a primary carcinogen with no threshold below which it is safe. The reason for this approach is that the Agency believes that in the absence of specific information establishing a threshold, it will provide the greatest public health protection. FDA further believes that this position is consistent with both the language and the spirit of the Delaney Clause.

In the case of FD&C Red No. 3, FDA has received a number of letters that have speculated about a potential secondary mechanism of carcinogenesis, but the data that have been generated and submitted to the Agency addressing this issue have not been very useful in making a determination about the mechanism. Furthermore, the data do not establish either that FD&C Red No. 3 has a threshold, or that it is safe for use in foods, drugs, and cosmetics. The burden is clearly on the petitioner under the act to establish that a safe level exists for FD&C Red No. 3, and that the petitioned-for and current uses are sufficiently below this level for FDA to approve the use of the color additive.

QUESTION: If modern pharmacology can prove that Red Dye #3 is not carcinogenic at levels anywhere near the level of normal consumption, why is FDA continuing its efforts to delist it?

ANSWER: As stated above, scientists in FDA's Centers for Food Safety and Applied Nutrition have concluded that FD&C Red No. 3 has been shown in a long-term feeding study to be a thyroid carcinogen in the rat. There are no data that prove that the color additive does not pose a cancer risk at "normal" consumption levels.

The animals in the long-term feeding study with FD&C Red No. 3 were fed exaggerated doses of the color additive, but the use of exaggerated doses is in accordance with established testing practices and current state-of-the-art toxicological standards. The animals were fed these doses to increase sensitivity because of the relatively small number of animals under test.

Thus, at the present time, FDA has no basis for concluding that there is a threshold below which FD&C Red No. 3 will not induce cancer.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

YAG LASERS

QUESTION: A hospital in Williston, North Dakota recently purchased a YAG laser for ophthalmic surgery. It is my understanding, through correspondence with your agency, that this laser is still classified as experimental. Thus, due to its experimental classification, Medicare reimbursement for the use of this procedure is not possible. Would you please give the committee an update on the status of the YAG laser?

ANSWER: The use of lasers in various types of surgery has been expanding rapidly over the past few years, most recently in the use of YAG lasers for ophthalmic surgery. Because this is new technology, having entered the marketplace after the enactment of the 1976 Medical Device Amendments, each manufacturer of a YAG laser is required to prove to FDA, before entering the market, that its particular instrument will perform safely and effectively. For practical purposes this means proof that the instrument will meet the expectations of the medical community based on the basic methodology as reported by the researchers who developed the basic technique.

To obtain data to support this premarket approval requirement, firms are permitted to distribute limited numbers of instruments to clinical investigators under an Investigational Device Exemption (IDE). There are several manufacturers developing YAG lasers, so a number of instruments have been distributed under the IDE regulations. Current agency guidance suggests that 500 patients with six month follow-up should provide adequate information for evaluating the performance of a particular instrument. The hospital in Williston, N.D. can have obtained its laser only by agreeing to participate in one of these clinical investigations, and to use the device only on an investigational basis.

It is reasonable to expect that hospitals take into consideration the investigational status of a device and Medicare's reimbursement policy in agreeing to participate in a clinical investigation under the sponsorship of the firm from which they obtained the device. Several firms have submitted Premarket Approval applications based on these clinical investigations, and FDA is reviewing these applications. It is anticipated that several approved YAG lasers will be on the market in the near future, for which treatment procedures could be reimbursed by Medicare.

ORPHAN DRUGS

QUESTION: In your budget justification outline for the FDA, you have mentioned a plan of work for the administration of orphan drugs. Is this a realistic plan and can most of the items mentioned be completed? Is the pharmaceutical industry cooperating with the FDA regarding orphan drugs?

ANSWER: The plan of work developed by FDA orphan product development programs was based on experiences gained during 1983 and 1984. Examples of these experiences include new product identification by FDA staff, sponsor contacts and requests for assistance, and sponsors requests for designation under the Orphan Drug Act. If the high level of interest and funding commitments by health professionals, the Congress, the pharmaceutical industry, and the disease-oriented group continues, the plan is a realistic estimate of future accomplishments.

The pharmaceutical industry has been cooperative and responsive to problems and actions needed on orphan product development. The level of cooperation is reflected by FY 1983 and 1984 commitments obtained from manufacturers for the sponsorship of 25 orphan products with little or no commercial potential to the firms. Additionally, the substantial efforts of the Pharmaceutical Manufacturers Association and the Generic Pharmaceutical Industry Association have greatly assisted in the development of specific products and have enhanced public awareness of orphan product development issues.

MINOR USE ANIMAL DRUGS

QUESTION: I understand FDA is planning to conduct a national minor use animal drug needs survey in the last quarter of 1984. What does this involve? What do you hope to learn, and what will you do with the information?

ANSWER: As a part of its regulatory policy on minor use/minor species animal drugs, FDA supports the USDA/IR_4 cooperative agreement research program. FDA recognizes the need for further science and research initiatives to encourage minor use animal drug development.

The IR_4 program (Interregional Research Project No. 4) is a nationwide cooperative effort of the Cooperative Research Service and the Agricultural Research Service of the USDA, the Environmental Protection Agency, the separate State agricultural experimental stations, and individual researchers, manufacturers, and growers. Its original purpose was to obtain minor use registration of pesticides.

USDA/IR_4 plans to conduct a national survey of the need for animal drugs for minor use/minor species, contacting veterinary colleges, veterinarians, animal producers, etc., to learn their priorities and requirements in this area.

A number of initiatives are already underway, the most recent of which was the announcement in the Federal Register of April 30, 1984, of the availability of funds from FDA for cooperative research agreements in the area of minor use animal drug development.

Under consideration will be projects to investigate:

- The comparative physiology of major and minor animal species.
- The comparative metabolism of animal drugs in major and minor animal species.
- The comparative pharmacology and toxicology of animal drugs in major and minor species.

- Application and limitations of pharmacokinetic parameters as a basis for extrapolation of data from approved major uses of drugs to minor uses.

These research agreements, in conjunction with our ongoing efforts, will improve our understanding of minor species and other minor animal drug uses so that we can more effectively review marketing applications for minor use animal drugs--that is, we will have a broader scientific data base on which to make expeditious decisions on the safety and efficacy of new products. At the same time, the survey that IR_4 plans to conduct will help all of the organizations involved not only to identify what types of products are needed, but also to analyze what additional efforts may be needed to promote the development of such products.

QUESTION: What research is currently done on drugs for minor species? Are there any veterinary colleges which now specialize in minor species drugs?

ANSWER: At present, the primary source for research on animal drugs for minor species (other than the funding FDA has recently announced) is the USDA IR_4 program.

To our knowledge, there are no veterinary colleges (or agricultural colleges for that matter) that now specialize in minor species drugs. It should be noted that there are a number of institutions and organizations established to conduct research in selected minor species, e.g., the International Dairy Goat Research Center at Prairie View A&M University. However, none of these institutions has as its primary focus the development of animal drugs for use in minor species.

QUESTION: What cooperative efforts do you have with universities concerning minor species? Is Tuskegee included in this cooperative effort?

ANSWER: We do not have any cooperative efforts with universities concerning minor species at the present time. However, as noted earlier, we have just recently announced the availability of funds for research agreements. We do not yet know who the recipients of that funding will be.

QUESTION: Notwithstanding budget constraints, what would be your reaction to a proposal to establish a minor species research facility at Tuskegee Institute?

ANSWER: The establishment of such a facility would provide a very important focus for research and development on animal drugs for use in minor species. Our reaction to the establishment of such a program at Tuskegee Institute would be very positive.

COMMODITY FUTURES TRADING COMMISSION

STATEMENT OF SUSAN M. PHILLIPS, CHAIRMAN

ACCOMPANIED BY:
DONALD L. TENDICK, DEPUTY EXECUTIVE DIRECTOR
G. HUNTINGTON BANISTER, DIRECTOR, OPERATIONS AND BUDGET

INTRODUCTION OF WITNESSES

Senator COCHRAN. Our next panel will be the Commodity Futures Trading Commission (CFTC).

The Commission is responsible for maintaining and promoting the economic utility of the futures markets by encouraging their efficiency, assuring their integrity, and protecting participants against manipulation, abusive trade practices, fraud, and deceit.

Susan Phillips, chairperson of the Commission, is here. We really appreciate your being here to personally make this presentation to the committee, Miss Phillips. We welcome you and your colleagues.

PREPARED STATEMENT

We invite you to introduce those who are accompanying you today. We have a copy of your statement which will be put in the record in full and invite you to make any summary comments that you would like at this time.

[The statement follows:]

STATEMENT OF SUSAN M. PHILLIPS

I appreciate the opportunity to appear before you today to summarize the budget request of the Commodity Futures Trading Commission for fiscal year 1985. I am accompanied today by Donald L. Tendick, the Deputy Executive Director of the Commission, and by Hunt Banister, the Budget Director.

In order to carry out its responsibilities in fiscal year 1985, the Commission is requesting a budget of $27,292,000 and a staff of 533. This is an increase of $553,000 over our fiscal year 1984 appropriation, and includes the costs related to 10 new staff-years.

In making this request, the Commission is emphasizing its commitment to a vigorous enforcement program. We believe that both enforcement and market surveillance are the most efficient ways to assure the integrity of the markets and the prevention of fraud. Therefore, all 10 of the new staff-years requested will be allocated to the Commission's enforcement division.

The need for the additional staff-years in enforcement stems from both industry growth and the new statutory responsibilities placed on the Commission by the Futures Trading Act of 1982. For example, the Act includes an "open season" provision which grants states greater authority to pursue perpetrators of commodity fraud. Several of the enforcement staff-years requested in the 1985 budget will be assigned to a newly created State Liaison Unit which will educate and assist state enforcement personnel in the prosecution of commodity fraud.

The Futures Trading Act of 1982 also mandated that the Commission regulate the leverage industry, which is conducted off the exchanges without their self-regulatory oversight. To undertake the direct, hands-on regulation of this industry, the Commission anticipates that additional resources may be needed to devote to enforcement and other regulatory activities in the leverage area. The Commission has now published interim final rules for leverage transactions, and the staff will monitor over the next six months the impact of those regulations on the Commission's resources.

Six of the 10 additional enforcement staff requested will be assigned to the Commission's regional offices to assist in keeping up with the tremendous growth in volume which continues to take place in the futures and options markets. Investigation of trade practice violations and potential market manipulations are extremely resource intensive, often requiring detailed analysis of hundreds of trades. The explosive growth in commodities trading has significantly increased the pressure on the Commission's scarce investigative surveillance and enforcement. As you can see from the charts on pages 9 and 10 of the budget explanatory notes, the number of contracts traded per year has risen from about 36 million in 1976 to about 140 million in 1983. The number of licensed registrants has also increased dramatically. In 1976, there were about 26,000 registrants. The latest estimates are that there are about 70,000 firms and individuals registered with the CFTC.

The Commission has been able to handle this explosive growth and perform efficiently with only small increases in staff for a number of reasons. First, I believe that you will not find in the public or private sector a more dedicated and competent staff than is found at the CFTC. Second, the Commission is actively engaged in streamlining the regulatory processes of rule approvals, reparations, and contract markets, in addition to our efforts to get the states more involved in enforcement activities.

In addition, it has been possible for the industry to grow without a commensurate increase in the size of the agency because of the willingness and ability of the members of the industry to be effective self-regulators. For example, the National Futures Association (NFA) has already assumed some audit functions previously performed by the CFTC, as well as undertaking a number of registration and audit functions which the CFTC did not previously perform. NFA is expected to take over all of the CFTC's registration responsibilities by the middle of fiscal year 1985. This will allow the Commission to assume an oversight role, and allow a shift in resources from the Commission's registration and direct financial auditing program to supporting enforcement efforts, to oversight audits of self-regulatory organizations and to supporting NFA's audit efforts in the sales marketing, commodity pool, and introducing broker areas.

Finally, improvement and expansion of data processing is also crucial to the efficient conduct of the Commission's programs. As is reflected in our budget request, the Commission expects to be able to provide in fiscal year 1985 increased data processing support for less money than in 1984 for two reasons. First, the Commission had budgeted additional money in FY 1984 for data processing support for the three economic studies mandated by the Futures Trading Act of

1982. The bulk of data processing work in connection with the studies will be completed in FY 1984.

The other significant reason for the decrease is that the Commission recently completed installation of its own mainframe computer. This computer and the peripheral equipment supporting it were acquired in FY 1983 from the GSA surplus list. The cost to the CFTC to acquire, ship and install the equipment was $180,000—less than one-fourth of what it would have cost to purchase the equipment alone from the manufacturer. Although the computer is 1980 technology rather than state-of-the-art, we expect it to meet the agency's needs satisfactorily for 3 to 5 years. The Commission will, by FY 1985, have converted the various market surveillance systems, currently running on a costly timeshared basis at EPA and HHS, to the new mainframe.

The Commission has also taken other steps to make its data processing operations more efficient, including requiring exchanges to submit certain data in machine-readable form. The Commission will continue to explore ways to make these and other required data submissions more efficient for all of those involved.

Finally, I would like to note that the Commission has increased and implemented a number of service fees since the Futures Trading Act of 1982 was passed. These fees are expected to yield between $2 and $3 million to the U.S. Treasury in FY 1984. This money does not offset the Commission's budget. The total amount of fees collected in FY 1985 will decrease as NFA takes responsibility for registration, a major source of fee revenues.

In conclusion, the Commission feels that its FY 1985 budget request is the minimum necessary to provide responsive service to the public and to maintain the integrity of the markets. Thank you again, Mr. Chairman, for the opportunity to present the Commission's FY 1985 budget request. I will be happy to answer any questions you and members of your Committee may have.

BUDGET REQUEST

Ms. Phillips. Thank you very much, Mr. Chairman. I appreciate the opportunity to appear before you today to present the budget request of the Commodity Futures Trading Commission. I am accompanied today by Donald Tendick, on my right, who is the Deputy Executive Director of the Commission, and by Hunt Banister on my left, our Budget Director.

We have submitted a statement for the record. I would just like to, at this time, highlight the major elements of the Commission's budget request.

In order to carry out its responsibilities for fiscal year 1985, the Commission is requesting a budget of $27.3 million. This is to support 533 staff-years. This is an increase of approximately half a million dollars over our fiscal year 1984 appropriation and includes the costs related to 10 new staff-years.

TEN ADDITIONAL STAFF-YEARS

In making this request, the Commission is emphasizing its commitment to a vigorous enforcement program. All of the 10 new staff-years would be allocated to the Commission's Division of Enforcement.

The need for these additional staff-years in enforcement stems from two areas: first of all, growth in the industry, and, second, the new statutory responsibilities that have been placed on the Commission by the Futures Trading Act of 1982.

For example, in order to implement the open season provision of the act, it is necessary that several of the enforcement people be assigned to educate and assist State enforcement personnel in the prosecution of off-exchange commodity fraud.

The second area or new mandate that the 1982 act gave us was to regulate the leverage industry. These contracts are traded off-exchange, so there is no exchange that serves as a self-regulatory organization for this industry.

The regulation of the leverage industry will require that the Commission take a direct or "hands-on" approach to regulation.

We do have regulations in place, but because the Commission was unsure as to what the effect of this new program would be on its resources, we have determined to keep the moratoria in place with respect to new products and new firms until the Commission has had a chance to review what the scope of that industry might be.

The remainder of the new enforcement staff-years will supplement ongoing enforcement efforts which continue to increase as the industry we regulate experiences dramatic growth.

GROWTH IN THE FUTURES INDUSTRY

By almost any measure, the futures industry has grown by leaps and bounds in the last few years. For example, in terms of number of contracts traded: In 1976, 36 million contracts were traded, but by 1983, that number had grown to 140 million contracts.

The number of licensed registrants has also increased dramatically. In 1976, there were about 26,000 registrants, and our most recent estimates show about 70,000 firms and individuals that are now registered by the CFTC.

The diversity of new contracts has also made our enforcement and our regulatory jobs more complex.

In areas other than enforcement, the Commission has been able to handle the explosive growth in the industry and perform efficiently with only small increases in staff for several reasons. First of all, we have made an attempt to streamline and become more efficient.

Second, we are increasingly relying on self-regulatory organizations. For example, we are hoping to transfer the burden of some of our responsibilities to the newly created National Futures Association (NFA), notably, the auditing of commodity professionals and registration.

Finally, the improvement and expansion of our automated data processing is certainly crucial to the efficient conduct of the Commission's programs. Our written statement provides a progress report on the upgrading and conversion of those systems.

Finally, I would like to note that the Commission has increased and implemented a number of service fees since the Futures Trading Act of 1982 was passed. These fees are expected to produce between $2 million and $3 million in fiscal year 1984.

I would point out that this money goes directly to the U.S. Treasury and is not a direct offset to the Commission's budget. We anticipate that for 1985, however, these fees will be reduced, because NFA will be taking over our registration responsibilities. Thus, NFA will be getting those fees.

Let me conclude by saying that the Commission feels that the fiscal year 1985 budget request is the minimum that is necessary to provide responsive service to the public and to maintain the integrity of the markets. Thank you very much, Mr. Chairman, for the opportunity to present the Commission's budget. I will be happy to answer any questions that you might have.

COLLECTION OF REGISTRATION FEES

Senator COCHRAN. Thank you very much.

The National Futures Association, you say, is going to be collecting registration fees instead of you. Will the assessment be the same as the CFTC was making? Will the total collection be smaller or greater?

Ms. PHILLIPS. I don't believe they have set all of their registration fees. For the ones that they have set, they are either approximately the same as ours or higher. So far, they are only registering introducing brokers, which was a new category of registrants created by the act last year. We were not registering introducing brokers before, so we had never set those fees.

COOPERATIVE RELATIONSHIP WITH NFA

Senator COCHRAN. What is your opinion about the level of cooperation between your Commission and the NFA at this point? Do things seem to be working well or not well enough?

Ms. PHILLIPS. We have been very pleased with the working relationship that has developed between NFA and the Commission. Our staff are in daily contact with the NFA staff, in particular, on auditing matters. As we are preparing to phase out our registration responsibilities and turn them over to NFA, our computer people have been working together. We are even trying to work out a program so that, as they take over some of our responsibilities, their people actually will be working on CFTC premises to facilitate that conversion. We have been very pleased with the working relationship that has developed.

In fact, as a result of some of the NFA auditing programs, they have turned up several problems in the firms they have audited and immediately gotten on the phone to our people, and our enforcement staff has, in turn, gone out to take necessary action; for example, in the area of closing down commodity pools that are in violation of the Commodity Exchange Act or regulations. It has been a very constructive relationship.

OVERLAP OF EXCHANGE AND NFA RESPONSIBILITIES

Senator COCHRAN. How does the NFA compare with the exchanges in respect to enforcement powers and disciplining of registered members and that kind of thing? Is there an overlapping of responsibility there, or any distinctions that can be drawn?

Ms. PHILLIPS. You have asked several questions, so let me try to take them one at a time.

Certainly, some of the members of NFA are also members of the exchanges, so there would be some overlapping of responsibility there. One thing that the exchanges and NFA have done in the auditing area is to form what they call joint audit plans. There are two sets of these plans. They literally get together and divide up who is going to audit the various members, so that, for example, a large wire house is not going to be audited by 11 exchanges plus NFA. There have been some cooperative working relationships between the exchanges and NFA to eliminate that kind of duplication and overlap.

I would point out that the exchanges do have representation on the board of NFA. There is a mechanism to facilitate that kind of coordination.

Now, with respect to discipline and enforcement, NFA certainly has the ability to fine their members and also to suspend or expel them. If there are problems they can't handle, they would refer them to us. That kind of relationship is very similar to the enforcement powers that the exchanges have; but again, it is over their members only. That is why I think it is very important that the Commission work closely with both the exchanges and NFA, so that we can step in to complement or supplement their efforts in the areas they cannot reach.

Did I cover the areas of your question?

Senator COCHRAN. You did indeed.

REGULATORY FUNCTIONS TO BE PERFORMED BY NFA

I am wondering now what regulatory functions the NFA will perform that the CFTC has been performing.

Ms. PHILLIPS. There are several areas in which the NFA, I think, will pick up the reins. Now, bear in mind that their membership is essentially the futures commission merchants, commodity pool operators, and commodity trading advisors—essentially, the commodity professionals.

They are developing, and in fact pretty much have in place, a compliance program for the auditing of their member firms. Whereas we used to do direct auditing of, for example, pools and nonmember FCM's, now NFA is doing that.

They are also developing a testing program through which they eventually hope to test all people who are essentially dealing with the public, selling futures products or futures services. NFA is phasing in this program and has already required that new associated persons of introducing brokers undergo the testing program.

This is something that I am very pleased to see, because we were not doing that before. It had been done to some extent by the exchanges. Some required it of their members, but it was somewhat of a patchwork system. We are hopeful that this will improve the proficiency of the commodity professionals and assure the integrity there.

Arbitration is another area in which the NFA has made progress. They have, in fact, developed an arbitration program and have been actively hearing and deciding arbitration cases. That is a new forum in which futures customers may seek resolution of their disputes with commodity professionals.

The fourth area, of course, would be registration. We hope, by the end of this calendar year, to have turned over our registration responsibilities to NFA. We are doing it in a phased fashion. As I mentioned, they have already begun the registration of introducing brokers. They, in fact, started that from the inception of the program, once we put the introducing broker regulations into place. They have essentially been working with us to implement those regulations, and are processing all introducing brokers now. Then we plan to turn over to them, on a category-by-category basis, other classes of registrants.

One of the next areas which we understand they will be taking over will be the temporary licensing, which was also a new part of the 1982 amendments. They will, we hope, administer that program directly. We hope this will free up some of our Commission resources to support our enforcement activities in the surveillance area, and essentially to lend more support to the investigatory processes at the Commission which have been sorely strained in the past.

AGRICULTURAL OPTIONS

Senator COCHRAN. What is the status of permitting options on agricultural commodities to be traded? Is that being done now? Has it been cleared?

Ms. PHILLIPS. We have developed a pilot program for the trading of agricultural options. That was completed in January. We submitted it to the House Agriculture Committee and the Senate Agriculture, Nutrition and Forestry Committee pursuant to a layover provision of 30 continuous days of session. That was completed in February, and we are now accepting applications from the exchanges for the trading of agricultural options. To date, I understand that we have received an application for just one, soybeans. We are anticipating getting, perhaps, four or five more in the next week or so.

We had asked the exchanges, which are limited to two options per exchange during the pilot period of the program, to rank in order which option they would like to have approved first. We asked that those be submitted within 30 days, and we would try to consider those as a group if the applications were in good shape. If the applications are in good shape, and assuming we have no major problems, we hope to see trading begin in these products in the fall.

Senator COCHRAN. Will this have any impact on the stability of markets for farmers? What effect, if any, would it have on farmers and their ability to market their commodities?

Ms. PHILLIPS. Mr. Chairman, that is a very difficult question to answer because we are going into this not really knowing, which is why we are taking such a very cautious approach. As we have developed the agricultural options pilot program, we have been working with producer groups. We had a "road show" where we went around the country and met with producer groups directly. There seems to be a lot of interest by the farmers in using agricultural options. They seem to be very interested in the price protection aspects of agricultural options. The farmers may be thinking of them as price insurance mechanisms.

We also set up an Agricultural Options Advisory Committee to help us as we get this project started.

On the one hand, I guess I would have to say I don't know, but there is certainly a great potential for the use of these products by the farm community directly, perhaps more so than futures contracts, because you pay a set amount up front for the premium and would not be subject to those margin calls, which is one thing that is difficult often for the small producers.

RULE ENFORCEMENT REVIEW OF THE CHICAGO BOARD OF TRADE

Senator COCHRAN. A while ago we were talking about the relationship between the NFA and the exchanges and the CFTC. Last year, you released a report concerning the Chicago Board of Trade's discipline practices. Your staff recommended disapproving any new contracts that the Chicago Board wanted to offer until it shaped up its discipline procedures. I understand the Chicago Board of Trade subsequently sued the CFTC. The case was dismissed last week.

What is the situation there? What is the status of all that now?

Ms. PHILLIPS. Actually, those two areas are separate. First of all, in the fall of 1983, we had a followup review with respect to the Chicago Board of Trade's rule enforcement, which is part of our regular auditing program of the oversight of the exchanges. We had had a complete or full scope audit of the Chicago Board of Trade in the fall of 1982, and there were deficiencies found at that time. The exchange had committed to make certain kinds of improvements. The report this past fall, in 1983, was really a followup to see how they were doing.

They were given 60 days in which to respond to the Commission in three areas that we were particularly concerned about: their lack of a large trader reporting system; their trade practice surveillance system; and their disciplinary programs.

They were given, as I mentioned, 60 days to respond, and did, in fact, respond and made a number of changes. They have committed to do a number of things to improve their programs.

This is a report done by our Division of Trading and Markets, and has been, except for any confidential material, made public. The staff has been working with the exchange to get those deficiencies corrected. The staff does feel that they have made significant progress in correcting those deficiencies. In fact, on the basis of the improvements that they have made and committed to make, we were able to approve for trading a revival of an older contract, a GNMA II contract. We are feeling that that program is improving.

Now, with respect to the case that you mentioned earlier, that was a situation where the Chicago Board of Trade had sued the CFTC and the SEC jointly with respect to an interpretation of the jurisdictional accord that the two agencies had made. It was felt that there were some gray areas that needed some interpretive definition.

The two agencies published a joint statement. The Chicago Board of Trade was unhappy with that interpretive statement and filed suit.

The case was, as you mentioned, was dismissed last week. We are very pleased with that decision.

Senator COCHRAN. Was it dismissed for lack of jurisdiction or because there was no standing to bring the suit, or for what reason was it dismissed?

Ms. PHILLIPS. Essentially the latter, that there had been no——

Senator COCHRAN. No harm done, no actionable action.

Ms. PHILLIPS. Exactly.

STATE AND FEDERAL ASSISTANCE UNIT

Senator COCHRAN. The 1982 law that reauthorized CFTC gave States the authority to use whatever power they had to deal with off-exchange commodity fraud. Has there been any experience with States taking advantage of that authority that you know of?

Ms. PHILLIPS. Yes, sir, there has. I will say that in working with the States, we have discovered that we needed to do some education and some outreach work so that they could understand what their new powers were under our act. We have, in fact, set up within the Division of Enforcement a liaison unit to work directly with the States. We have held several seminars and invited the State securities people and the attorneys general from the States, first of all to Washington, and then to a regional seminar in California.

There have been a number of joint actions since the act was passed. I think that altogether there were about 12 joint actions that have been brought by the CFTC and different States.

We are most pleased that with the two most recent cases—one with the State of Arizona and one with the State of California. We have seen the States calling us up and inviting us to come and work with them on a case that they were looking into.

SUBMITTED QUESTIONS

Senator COCHRAN. Your presentation to the committee today has been very helpful and interesting. It is good to see you again. We will be reviewing the request and trying to get the committee to make the right kind of decision on funding, so that you can discharge the duties you are required to perform under the law. We will also submit some written questions to you to be answered subsequent to the hearing.

Thank you very much for your cooperation with the subcommittee.

Ms. PHILLIPS. Thank you very much, Mr. Chairman. We appreciate your interest in the Commission.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

ADDITIONAL SELF-REGULATORY ORGANIZATIONS

Question: I understand that the National Futures Association is the only association registered with the Commission to perform certain regulatory functions designated by the Commission. Are there any other associations which may be formed in the near future?

Answer: Although section 17 of the Act does not preclude Commission designation of other registered futures associations, the Commission is not aware of any efforts within the commodities industry to establish another association at this time. However, there have been some press reports of efforts to develop a leverage association. An effective self-regulatory organization must be well-capitalized, and it is unclear whether the industry participants would be willing to, or see any need to, support another self-regulatory organization. Therefore, whether another association applies for designation will depend to a certain extent on how well NFA performs its regulatory activities and, to date, the Commission is unaware of any dissatisfaction.

THE ROLE OF THE NATIONAL FUTURES ASSOCIATION

Question: Is NFA similar in nature to the American Institute of Certified Public Accountants? How so?

Answer: The National Futures Association ("NFA") and the American Institute of Certified Public Accountants ("AICPA") are self-regulatory organizations for the respective industries they serve. However, as described below, NFA's self-regulatory program is more comprehensive than that of the AICPA.

- AICPA is a voluntary organization of certified public accountants. In contrast, virtually all members of the commodity futures industry who are required to register with the Commission are required, directly or indirectly, to become members of NFA.

- The Commission, under its legislative mandate, reviews and approves NFA rules and conducts an ongoing review program to monitor the conduct of NFA's program, including on-site and field review of NFA's audit and financial surveillance, sales practice and front office audit programs. In contrast, the federal government does not have the direct legislative mandate to oversee the activities of the AICPA. Nonetheless, the Securities and Exchange Commission, under long-standing arrangements, monitors the AICPA's standards-setting activities and exercises formal oversight of the peer review board of the SEC practice section.

- Both NFA and AICPA have audit and review programs for monitoring compliance with professional and industry standards. The members of the AICPA are not required to submit to these programs, however. In contrast, all members of NFA are subject to audit and review.

- The members of both AICPA and NFA are subject to their respective organizations' codes of conduct, and both have disciplinary mechanisms for breaches of their codes, which are operated by members who sit on various boards or committees for that purpose. The disciplinary mechanisms of both the NFA and AICPA may lead to loss of membership for a member in either organization and, directly or indirectly, to a loss of the ability to operate in the respective industry or profession.

- In the case of loss of NFA membership, other members are prohibited by NFA rules from doing business with that ex-member, and hence any ex-member which is not a clearing member of an exchange would not be able to execute futures trades or otherwise deal with the public. Also, the exchanges can be expected to monitor NFA disciplinary actions and would be expected to take parallel disciplinary action against their clearing members under their own rules, if appropriate.

- In the case of loss of AICPA membership, a CPA would not directly be barred from practicing as a CPA, because AICPA membership is not necessary to practice as a CPA in any state. To be barred from practice in a particular state, a CPA's license in that state must be suspended or revoked by a licensing board. However, the various state professional licensing boards do monitor AICPA disciplinary actions and could respond to expulsion or suspension from the AICPA with a parallel action of their own.

ASSUMPTION OF REGULATORY FUNCTIONS

Question: What regulatory functions do, or will, the NFA perform that the CFTC has been performing?

Answer: The Commission expects that NFA will assume responsibility for the processing of all registration applications, with the exception of applications for registration as a floor broker, by the end of calendar year 1984, or the first quarter of fiscal year 1985. The Commission is unable to fix a more definite date at this time because NFA is still in the initial phase of developing its registration program. Based on its own experience, the Commission has determined not to impose additional registration responsibilities upon NFA until its systems and procedures have been thoroughly tested, and both NFA and the Commission are confident that NFA has the ability to perform this function. However, there appears to be no reason why NFA will not be able to assume this responsibility by the end of calendar year 1984. The Commission and NFA expect to establish a firm date by July 30 of this year.

The Commission notes that NFA now has authority to register introducing brokers and their associated persons and, in the second quarter of calendar year 1984, will process all applications for a temporary license to act as an associated person. Thus, NFA will be responsible for processing approximately two-thirds of all applications.

When all other registration processing responsibilities are transferred to NFA, the Commission may still retain the responsibility for registration of floor brokers. Unlike other Commission registrants, floor brokers, whose activities are generally limited to executing trades on the exchange floor, are not required to become members or associate members of NFA and thus are not regulated by NFA. Rather, their activities are regulated by the exchanges themselves. The registration staff will also conduct fitness investigations when applications are forwarded from the NFA for that purpose and deal with the retirement of hard copy files. In addition, the Commission will be responsible for oversight of the NFA registration program in connection with the Commission's general oversight of all NFA regulatory activities.

NFA began to assume the audit function shortly after it began operations in October 1982. At that time, NFA began to audit those futures commission merchants which are not members of an exchange. In January 1983, NFA began to audit commodity pool operators and commodity trading advisors. At the present time, audit responsibility for these two categories of registrant is shared with the Commission. NFA assumption of audit responsibility for commodity pool operators and commodity trading advisors means that, for the first time, these registrants will be subject to periodic routine audits. In the past, Commission resources have required the Commission to target its audits on those commodity pool operators and commodity trading advisors about which the Commission had cause for concern.

By the end of calendar year 1984, the Commission expects that NFA, in coordination with the designated futures exchanges, will assume direct routine audit responsibility for all registrants except leverage transaction merchants. The Commission, of course, will continue to have oversight responsibility for the NFA's activities in this area and will continue to audit firms when a violation of the Act is suspected.

COMPULSORY MEMBERSHIP

Question: Will membership in NFA be required for certain segments of the futures industry to conduct business?

Answer: With certain limited exceptions which are discussed below, virtually every individual and firm doing futures business with the public is required to be a member of NFA.

Section 17(m) of the Act authorizes the Commission to approve rules of a futures association that, directly or indirectly, require persons to join at least one such association in which they are eligible for membership. Pursuant to this authority, the Commission, in June 1983, adopted a rule which requires every futures commission merchant which is required to be registered with the Commission to join NFA. In that connection, a substantial number of FCMs who do not solicit or accept orders from the public or handle customer funds and who are, therefore, not required to be registered as FCMs nonetheless elect to register with the Commission. These firms are not required to become members of NFA, however. In addition, NFA Bylaw 1101 specifies that no NFA member may carry an account, accept an order or handle a transaction on behalf of any person that is required to be registered with the Commission as an FCM, introducing broker, commodity pool operator, or commodity trading advisor if that person is not itself a member of NFA. Thus, as a practical matter, virtually every Commission registrant must join NFA in order to continue to do business in the futures and options industry.

As noted above, there are certain exceptions to this general rule. The principal exception relates to floor brokers and floor traders, neither of whom is required to join NFA. In addition, leverage transaction merchants, for which separate registration requirements will become effective on April 13, 1984, are not presently required to become members of NFA.

REGISTRATION FEES

Question: Will the NFA now collect registration fees that have been collected by CFTC to this point?

Answer: The Commission estimates that it will collect approximately $953,000 in registration fees in the first two quarters of fiscal year 1985. These funds do not go to the Commission, but are paid to the U.S. Treasury. By the end of the second quarter of fiscal year 1985, it is anticipated that the NFA will have fully assumed the registration responsibility from the Commission. Accordingly, following the second quarter of fiscal year 1985, the Commission anticipates that it will no longer return money to the Treasury from the collection of registration fees. The fees collected by the NFA will be retained by the NFA.

Question: What will be the relationship between the Commission and the NFA?

Answer: It is anticipated that the spirit of cooperation which has marked the relationship between the Commission and NFA to date will continue. At the same time, however, NFA is a Commission registrant subject to the Commission's oversight and scrutiny, and the Commission has a broad range of options which it can employ to ensure that NFA fulfills its responsibilities. For example, all NFA rules must be filed with the Commission prior to their implementation and the Commission may, in appropriate cases, disapprove or otherwise modify those rules. The Commission is separately empowered to review NFA disciplinary actions and decisions to deny membership as well as adverse registration decisions such as the denial or suspension of registration once that latter authority is conferred on NFA by the Commission. In addition, the Commission's staff is in frequent contact with NFA staff with regard to such matters as the scheduling of audits, potential targets of enforcement action, and the supplementary oversight by NFA of the activities of commodity trading advisors and commodity pool operators.

The Commission also is charged with the responsibility to submit a report to the Congress by January 1, 1986 detailing the regulatory experience of the NFA between January 1, 1983 and September 30, 1985. The report will address such matters as the extent to which NFA has fully implemented its self-regulatory program in certain critical areas, including proficiency testing of applicants for registration and the financial and sales practice audit programs mandated by the Act.

It should be noted that the Commission is authorized to suspend NFA's registration with the Commission if it is necessary to compel NFA to conform its rules to requirements which have been established by the Commission. Similarly, the Commission may suspend or revoke NFA's registration if NFA fails to enforce compliance with its own rules or has engaged in any other activity tending to defeat the purposes of the Commodity Exchange Act. The Commission is further empowered to remove from office any director or officer who has willfully failed to enforce NFA's rules.

COORDINATION WITH NFA

Question: How much time has CFTC staff spent in developing NFA to its present position? How much staff time will be needed as more functions are transferred to NFA?

Answer: To date, the Commission has been required to expend considerable resources to support NFA's development. This has not been unexpected, however. Both the Commission and NFA recognize that if NFA is to succeed in assisting the Commission in direct regulatory responsibility over the commodities industry, close coordination would be required during the developmental stage to ensure that NFA's programs would be effective. This coordination consists not only in providing assistance to NFA in the development of its programs but in auditing the implementation of these programs as well. In this connection:

- The Commission has appointed a Commission liaison to the NFA and a special counsel for NFA matters to coordinate communication between NFA and the Commission.

- The Commission has reviewed the application and bylaws of NFA prior to designation of NFA as a registered futures association.

- The Commission has reviewed and approved NFA rules affecting its regulatory program, including rules relating to NFA's assumption of audit responsibility for (1) futures commission merchants, commodity pool operators and commodity trading advisors, (2) the offer and sale of dealer options by futures commission merchants and (3) the offer and sale of exchange-traded options by non-exchange member futures commission merchants.

- The Commission has reviewed and approved NFA rules establishing an arbitration program for the resolution of claims and disputes between customers and NFA members.

- The Commission has reviewed and approved NFA rules relating to its registration program and standards for membership in NFA, which standards conform to those set forth in the Commodity Exchange Act with respect to statutory disqualification from registration.

- The Commission has reviewed and approved NFA rules for registration and membership fees.

- The Commission has monitored NFA's budget.
- The Commission has issued orders authorizing NFA: (1) to administer a "no-action" position for introducing brokers and their associated persons; (2) to process and grant registrations to introducing broker and associated persons of introducing broker applicants; (3) to fix expiration dates for the registration of introducing brokers; and (4) to process applications for a temporary license to act as an associated person.
- The Commission has participated in meetings with representatives of NFA, the Department of Justice and the Securities and Exchange Commission to establish the appropriate systems for NFA direct access to information on applicants which may be contained in the files of those agencies.
- The Commission has coordinated with NFA in identifying those registered commodity pool operators which were operating pools and which should be the first targets of NFA audits.
- The Commission has conducted separate audits of NFA's financial audit and surveillance program and sales practice audit program.
- The Commission has reviewed and approved the joint audit programs among NFA and the various exchanges.
- The Commission has monthly briefings by its staff and/or NFA staff on progress in implementing NFA programs.

It is anticipated that the amount of Commission resources devoted to the development of NFA will continue at substantially the same level through calendar year 1984. Thereafter, the commitment of resources should begin to lessen as the Commission shifts from development of NFA to oversight of its activities. The Commission believes that its substantial investment of resources will ultimately benefit the Commission by enabling NFA to assume more quickly direct regulatory responsibility for the commodities industry and, thus, enable the Commission to redirect its resources to oversight of the self-regulatory organizations and enforcement.

NFA EFFECT ON COMMISSION RESOURCES

Question: What will be the effect on CFTC staff as NFA performs audits on its members?

Answer: The Commission staff has already effectively shifted away from direct audit activities. Direct audits are limited to enforcement audits, special inquiries into financial and sales practice matters, emergency intervention to protect customer funds or to permit bankruptcy transfers, and supplementation of NFA's developing CPO and CTA audit programs. Other direct audits are done to test the quality of self-regulatory organization audit programs and to ensure that SRO programs are current with industry practices. The Commission will for the foreseeable future, however, have direct audit responsibility for leverage transaction merchants. There also may be some need for the CFTC to assist NFA with the large number of firms registered as introducing brokers.

Question: If the National Futures Association takes over some of your present functions, won't there be less demand on the staff?

Answer: The demands on the Commission staff, though somewhat different, will be no less when the National Futures Association completes its assumption of the Commission's registration and audit functions. With respect to registration, the Commission's proposed FY 1985 budget reflects the expectation that all registration processing will be transferred to NFA by the second quarter of FY 1985. At that time, the Commission's registration staff will begin activities which will include: (1) oversight to assure that NFA registration activities meet the requirements of the Commodity Exchange Act; (2) review of matters referred or appealed to the CFTC by applicants, registrants, or NFA; (3) closeout activities involving open registration investigations; and (4) records management and production. It is projected that in FY 1986 the Commission's registration system will be replaced by on-line access to the NFA system for data searches for current and historical information on registrants and applicants.

With respect to the audit function, the shift away from direct audit responsibility is essentially complete. During FY 1985, the staff will continue its programs to oversee the sales practice and financial audit programs of the exchanges and NFA. The scope of the direct audit program will be contingent upon the staff's evaluation of the various SROs' capabilities to perform adequately sales practice audits. The effective implementation of NFA's programs will allow the staff's direct audit activities to be concentrated on those registrants who flagrantly violate the Commission's regulations. Therefore, in the future, most resources will be directed to oversight and towards the Enforcement Program to promptly bring cases to stop violative conduct. The staff will be fully used in performing these functions, because the resources currently projected to undertake the number of reviews planned and to support the anticipated cases exceeds the resources available.

REGULATION OF NFA MEMBERSHIP

Question: NFA has no enforcement authority. How can it regulate its members with no such authority?

Answer: Although NFA cannot seek to enjoin its members from engaging in conduct which is in violation of its rules and cannot obtain criminal sanctions for any such violations, NFA nonetheless has a formidable array of powers with which it can discipline its membership.

The Act and the Commission's regulations thereunder require NFA to establish rules and programs to enforce compliance in such areas as minimum capital requirements for futures commission merchants and customer protection rules such as discretionary account and supervision requirements. Section 17(b)(8) of the Act and Commission regulation 170.6, in turn, specify that a registered futures association such as NFA must provide for the appropriate discipline of any of its members who may violate the association's rules, such as those described above. Thus, NFA Compliance Rule 3-11 authorizes the following sanctions as the result of a disciplinary proceeding: suspension or expulsion from membership or from association with a member; censures and reprimands; fines of up to $100,000; orders to cease and desist from any further violation; and "any other fitting penalty or remedial action not inconsistent with" that Rule including, in appropriate cases, restrictions on the operations and activities of a member.

STATE JURISDICTION IN OFF-EXCHANGE COMMODITY FRAUD

Question: The 1982 reauthorization by Congress for CFTC allowed states to use whatever authority they have to attack off-exchange commodity fraud. How prevalent is off-exchange commodity fraud?

Answer: Because of the very nature of these fraudulent schemes which often defy detection much less definition, it is impossible to give a precise answer to this question. In 1982, the Permanent Subcommittee on Investigations of the Senate Committee on Governmental Affairs estimated that over $200 million a year was being lost by citizens because of this illegal activity.

Question: What form does it take?

Answer: The common denominator of off-exchange commodity fraud scams is a boiler room sales operation, staffed by salemen who make unsolicited, high-pressure telephone calls nationwide to unsophisticated investors. They routinely make unfounded profit predictions and/or guarantees, minimize risks and misrepresent the trading history of the firm. The single-minded purpose, focus and effort of these operations is to convince gullible customers to invest their hard-earned savings in an opportunity which is guaranteed only to enrich the crooks and impoverish the citizens.

Question: I know it has only been a short time since this provision passed, but do you have any indication that states will use this authority?

Answer: Since the passage of the Futures Trading Act of 1982, two states, Arizona and California, have filed cooperative enforcement cases with the Commission, pursuant to Section 6(d), against off-exchange boiler rooms. The State of Arizona also recently filed an action in state court using the open season provisions of Section 12(e). The Commission has taken steps to educate the various state enforcement officers regarding the Act, regulations case law and investigative procedures through Cooperative Enforcement Seminars, both national and regional. This training effort, coupled with assistance provided by our newly-created State/Federal Liaison Unit, should result in more states utilizing the authority provided in the Act.

Question: What effect will this have on CFTC staff? Will it help or hinder your efforts?

Answer: Use of the open season provisions of Section 12(e) by the states will have a direct and beneficial impact on our goal of attacking commodity fraud nationwide. It will supplement our efforts in this area by bringing additional resources to bear against fraudulent operators who prey on our citizens.

CUSTOMER COMPLAINTS

Question: How do you act on customer complaints about potential abuse or fraud? How many complaints must be filed concerning a firm before you will investigate the complaints? How long does it take to investigate customer complaints?

Answer: The Commission has a well-developed system for acting on customer complaints which involves centralized complaint processing in Washington and routing of the complaint to the regional office closest to the party or firm against whom the complaint is lodged. In addition, complaints may be referred to other Federal, State or self-regulatory officials who may have jurisdiction to pursue violations of other Federal or State laws or other regulations. The Division of Enforcement's State/Federal Liaison Unit will be coordinating such efforts by the Commission.

There is no set number of complaints which must be received before an investigation is commenced. When the staff of the Commission determines that a pattern or practice of deception has occurred, usually by a clustering of complaints against a firm or individual, it generally opens an inquiry. Such a determination of clustering involves subjective elements of judgment and experience in order to decide what action to take. It should be noted, that in many instances such clustering of complaints, usually augmented by other information sources, make it appropriate for the Division of Enforcement to seek injunctive relief immediately in U.S. District Courts. Such actions many times will not be preceded by an investigation.

SOURCE OF INVESTIGATIONS

Question: What are the primary sources from which you receive information that leads to investigations of exchange members?

Answer: There are four primary sources of information that can lead to investigations of exchange members. Such investigations may result from initiatives taken by the Division of Enforcement to examine segments of futures trading on particular exchanges to determine whether there are any apparent violations of the Act or Regulations. Also, the Division may initiate such an investigation as a response to some particular market events or to customer complaints. Investigations of exchange members can result from information developed by other divisions of the Commission. Specifically, the Division of Economics and Education, in the course of its ongoing surveillance of futures markets, and the Division of Trading and Markets, in the course of its supervision of the self-regulatory functions of exchanges, may develop information which is then referred to the Division of Enforcement for investigation. Lastly, other federal agencies such as the Federal Bureau of Investigation may make information available to the Division which results in the investigation of exchange members.

VIOLATIONS OF THE ACT OR REGULATIONS

Question: What action is CFTC authorized to take if violation of a rule, law, or accepted practice takes place?

Answer: In the event of an apparent violation of the Act or Regulations, the Commission can commence either administrative or federal injunctive proceedings. Also, on various occasions, the Divisions of Trading and Markets and Economics and Education may issue warning letters which apprise apparent violators of perceived violations. In the administrative forum, the Commission can impose civil penalties of up to $100,000 per violation, suspend or revoke a respondent's registration with the Commission, prohibit a respondent from trading on or subject to futures exchanges and enter cease and desist orders. In federal court proceedings, the Commission can obtain an order enjoining further violations of the Act and Regulations as well as for related equitable relief such as court appointment of a receiver to obtain and account for illegally obtained customer funds, disgorgement of customer funds, etc. Notably, as a result of a 1982 amendment to the Act, the Commission now may obtain ex parte orders in federal court freezing assets and prohibiting destruction, alteration or disposition of books and records.

Question: How many investigations were there in Fiscal Year 1983? What were the results of those investigations?

Answer: During Fiscal Year 1983 there were 180 investigations in various stages with the results being either a case being brought, a matter being referred to other agencies, the investigation being closed, or the investigation continued after the close of Fiscal Year 1983. These statistics do not include preliminary inquiries into matters which come to the Division of Enforcement's attention which are resolved in a short time period.

The results of some of the investigations conducted during 1983 are as follows: 83 cases were filed, including both administrative and injunctive cases; 38 investigations were closed; 6 matters were referred to other agencies.

During Fiscal Year 1983 59 cases were successfully concluded which resulted in $3,265,000 in monetary penalties and 11 injunctive actions were filed in U.S. District Court.

COMPUTER CAPABILITIES

QUESTION: In your statement, you say that your computer and peripherals were acquired from the General Services Administration surplus list, and is is 1980 technology rather than state-of-the-art. Why was this particular equipment purchased, rather than your having requested funds for a new computer?

ANSWER: In FY83, the CFTC turned to timesharing as a method of meeting Commission system requirements. This was done because the Commission's existing NCR computer system did not offer the capability and expandability necessary to meet these needs. As a result, timesharing costs increased to $645,000 in FY83. It was anticipated that timesharing costs would continue to rise at a high rate as new application systems were developed and implemented. Realizing the Commission could not afford ever increasing timesharing costs, alternative approaches were sought to accomplish CFTC data processing. Among the alternative approaches considered were to request funding through OMB and to embark on the major systems acquisition process, and to monitor closely the GSA "Automated Data Processing Resources Availability List" to determine if a reliable computer system capable of meeting CFTC's needs was available within the Federal Government. CFTC decided to pursue the two alternatives in parallel. During late FY83, an AS-5000N computer mainframe and a limited complement of peripheral components were acquired from the GSA "Automated Data Processing Resources Availability List". The equipment was not purchased by CFTC, but provided by GSA to CFTC for the cost of shipping the equipment from its then current location to the CFTC Chicago Data Center and its installation. The computer components acquired had been previously purchased by other Federal agencies who no longer had a requirement for the equipment. Purchased new, the computer as configured on receipt by the CFTC, would have cost approximately $850,000. CFTC's actual cost to acquire, ship and install the configuration was under $200,000. This has resulted in a savings to the Government of approximately $650,000. CFTC estimates the computers remaining useful life as 3-5 years.

QUESTION: Was computer equipment part of your request to OMB?

ANSWER: The time required to request funds from OMB for the acquisition of a new computer system, obtain the OMB approval, and conduct the acquistion process was estimated by CFTC to be two years. It was felt this long lead time would severely impact CFTC's ability to utilize data processing in support of mission needs. Fortunately for CFTC, the AS-5000N computer mainframe and limited peripheral components became available and were assigned by GSA to CFTC in late FY83. At that time, all work on the request to OMB for funds to acquire a new computer system ceased.

LOGICAL GROWTH OF COMPUTER CAPABILITY

QUESTION: Please list your computer needs and related costs of those needs for the record.

ANSWER: The specific needs for FY85 are those outlined in our budget submission, Appendix A, page 88. Since the AS-5000N was acquired in FY83 with limited peripheral components, additional components are being added to the configuration during FY84. The items requested for FY85 allow for the logical growth of the AS-5000N and the initial use of microcomputers in the Commission. The logical growth of the AS-5000N computer system capability is necessary to meet the Commission's increasing need for automated systems. The Commission wants to avoid the costly lesson learned in FY83, when existing computer capability and expandability precipitated the need to turn to timesharing as a solution.

QUESTION: What effect will NFA's computer capabilities have on your needs?

ANSWER: The CFTC has in the past two and half years spent considerable resources on the Commission's Registration System, both for development and operation. Most of the development cost in FY83 and FY84 were associated with changes brought about by the Futures Trading Act of 1982. Transition of this function to the NFA will require some programming to extract data for loading current data into NFA's system, parallel operation to insure similarity of function between systems and ADP staff time to plan and prepare equipment for access to the NFA system by Commission personnel and transmittal of data between systems. Methods of automated transfer of information such as findings in cases sufficient to deny registration remain to be designed. While CFTC ADP has devoted considerable timesharing and systems development resources to the Registration System, over the past year, staff operational support to Registration has decreased to one staff-year. That support can easily be utilized in other areas in FY85. The requested budget for timesharing shows the marked decrease in funds from $656,000 in FY84 to $78,000 in FY85. The major portion of this decrease is related to the Registration System. These cost estimates assume that NFA will meet its target date of the second quarter FY85 for the total operation of all registration functions.

CFTC STAFFING AND FUNDING

Question: In your statement, you say that the number of contracts traded per year between 1976 and 1983 rose from about 36 million to about 140 million. How much has your staff grown over the same period of time?

Answer: In FY 1976, the CFTC had an average employment of 373 staff-years; in FY 1983 the staff-year total was 485. This represents an increase in average employment of approximately 30 percent. However, this increase is somewhat misleading because in FY 1976, the CFTC was just beginning to staff up after its creation in April 1975. A better comparison would be the staffing levels of FY 1977 and FY 1983. In 1977, the CFTC had an average employment of 463. When compared with FY 1983, the increase in staffing was only about 5 percent. During this same period of time the number of contracts traded increased over 240 percent.

Question: If the Congress chooses to appropriate more money than the request, where will the staff-years be allocated?

Answer: In September 1983, the Commission requested OMB approval for appropriations which would have funded 42 additional staff-years, 30 were in support of the enforcement program and 6 were to be devoted to ADP-related activities, including ADP auditing, ADP planning and ADP systems development and maintenance. The remaining 6 new positions were allocated as follows: two in Market Analysis, 1 in Education, 1 in Secretariat, and 2 in the Office of Proceedings.

On December 16, 1983, OMB approved a fiscal year 1985 budget for CFTC which did not include any new staff-years. On December 19, 1983, the Commission appealed the decision, requesting the 30 staff-years to support the enforcement program. On December 29, 1983, OMB restored 10 of the enforcement staff-years to the CFTC FY 1985 appropriation request.

Therefore, if Congress appropriated more money than the Commission requested, based on the Commission's current priorities and workload, the funds would go first to the 20 enforcement staff-years cut by OMB, then to the 6 ADP-related staff-years and, finally to the other staff-years.

Question: If the Congress chooses to freeze all programs at fiscal year 1984 levels, what will be the impact on CFTC?

Answer: A Congressional decision to freeze the CFTC at the FY 1984 estimated funding level of $26,739,000 would result in a reduction of approximately fifteen staff-years below the requested staffing level of 533 or five staff-years below the currently authorized level of 523. The greatest impact of this loss in staff would be on the enforcement program.

At the FY 1984 funding level, resources will be even more pressed in responding to the new areas and increasing enforcement responsibility created by recent developments in the commodities area. The Futures Trading Act of 1982, P.L. No. 97-444, encourages the States' participation in commodity enforcement activities, while retaining the Commission's exclusive regulatory jurisdiction over exchange traded futures and options and over leverage transactions. Over the long-term, prosecution by the states of off-exchange fraud may reduce the demands in this area on the Commission's limited enforcement resources. This will come, however, only at the cost of a substantial investment over the next several years in an in-depth, sustained program to educate and assist state law enforcement officials in workings of commodities markets and commodities fraud. At FY 1984 levels, the Commission will not be able to make the investment needed in this area in 1985.

In addition, important enforcement activity in the major futures market centers, Chicago and New York, will suffer. The Commission's offices in Chicago and New York must investigate trading abuses on futures exchanges where the trading volume during an average month now exceeds 11 million contracts. These trade practice investigations are both time-consuming and investigator intensive. The great complexity and scope of the facts and the limited staff available in the Commission means that some of the most significant investigations can take years to conclude. Moreover, the small size of our investigative staff and need for greater computer support have limited the

Commission's ability to search for possible illegal trading that threatens the integrity of the futures markets and should be investigated. At the same time, the Enforcement staff in the New York and Chicago offices are responsible for investigations and litigation involving commodity fraud in 10 Northeast and 16 Midwestern states, respectively. Finally, the leverage industry, which has consisted of only a few merchants since 1978, may expand in Fy 1985 if experience under the Commission's new leverage regulations, adopted at the direction of Congress, warrants the lifting of the current moratorium on market entrants.

Without the requested funds, the Commission cannot address these current shortages and futures needs. The expanding markets pose the threat of increased customer fraud. The members of contract markets should not be permitted to believe that the Commission's Enforcement resources are dedicated to pursuing fringe elements, leaving illegal activities on the trading floors unnoticed. At current levels, however, the Commission may be forced to choose between prosecution of fraud on customers, away from the market centers, and prosecution of market abuses.

OPTIONS PILOT PROGRAM ON AGRICULTURAL COMMODITIES

Question: Could you give us a progress report on the pilot project for options on agricultural commodities? Could you also describe, in layman's terms, what this program will do? Many farmers are afraid of the futures market because they don't understand it. What efforts will you take to educate farmers about these options and how they work?

Answer: Final regulations for the ag option pilot program became effective on March 19, 1984. The Commission is now accepting option contract applications from qualified exchanges. After a thorough economic review by the Commission staff, the first contracts should be ready for designation in the early fall.

The agricultural options pilot program will allow for the trading of options on agricultural futures contracts under the same general regulatory framework as is in effect for the Commission's already-functioning pilot program for non-agricultural options. For a description of how ag options will work and a comparison of options and futures see the attached brochure entitled "Options on Domestic Agricultural Commodities."

Since Congress lifted the ban on agricultural options in the Futures Trading Act of 1982, the Commission has undertaken an extensive options education program for producers and other potential users in agribusiness. The Commission held informational meetings in 9 cities around the country to discuss the issues involving an agricultural options program and to solicit suggestions from producers, commercial users and agricultural specialists. In addition, the Commission sponsored an Advisory Committee on Agricultural Options, chaired by Commissioner Kalo Hineman, comprised of individuals from a broad cross-section of farm, commodity and commercial organizations. This advisory committee provided valuable assistance to the Commission in exploring practical considerations and policy alternatives in shaping the agricultural options pilot program.

Special meetings were also held with State Extension agents to explore ideas for an expanded education program on alternative marketing, including agricultural options. One result of this effort is a cooperative agreement between the U.S.D.A. Extension Service and the University of Georgia to prepare an agricultural options education package for the Cooperative State Extension Services. CFTC staff are serving on a task force to develop this educational package and workshop program which should be completed by October 1, 1984. The plan for dissemination of the educational material involves regional training workshops for State Extension agents, who in turn will sponsor State Extension workshops for producers and commercial users in their areas. In addition to this program, CFTC staff are also helping develop a series of commodity-specific conferences with various State Extension offices. One conference is scheduled in St. Louis, Missouri in June, and other conferences are being considered for Dallas, Texas and Denver, Colorado.

CFTC staff is also working with agricultural and commodity organizations to inform and help educate their membership about the agricultural options program. Members of the Commission have appeared before producer and commodity groups to talk with them about ag options and how they can be used as a form of price insurance. In addition, the Commission has extensive education efforts underway with ag bankers, including members of the American Bankers Association (ABA), the Independent Bankers Association, and the Farm Credit Administration and is developing a manual on agricultural options for agricultural lenders. Two workshops were held at the ABA Ag Lenders national conference on ag options, and two more in-depth programs are planned for the national convention in November 1984. Commission staff is also preparing an educational package for ag bankers that would be offered through their own internal training program for ABA members nationwide. In addition, the Independent Bankers Association has agreed to publish in its newsletter a series of articles for its membership.

Further, a series of workshops is planned with selected districts of the Farm Credit Administration, with special emphasis on reaching production credit officers. In addition to these selected workshops, an effort is being made to develop an education package that the Farm Credit Administration could use to train its bankers through its own internal education program.

Finally, the Commission has been working with the media in preparing and publishing articles on the use of agricultural options based on specific commodities. Several articles concerning the use of options as risk management tools for producers have recently appeared in cotton, grain and livestock trade publications.

OPTIONS ON DOMESTIC AGRICULTURAL COMMODITIES

In September 1982, the Commodity Futures Trading Commission presented a pilot program to Congress that would permit exchanges to offer options on a limited number of commodity futures, excluding options on domestic agricultural commodities. However, recent amendments to the Commodity Exchange Act removed that longstanding ban on agricultural options. In compliance with the Futures Trading Act of 1982, the Commission is now free to consider establishing a three-year pilot program that will permit exchanges to offer options on specific domestic agricultural commodities.

In a Federal Register notice published on February 10, 1983 (copy attached), the Commission requested comments from agricultural producers, merchants, processors and other users on a number of issues relating to the trading of options on agricultural commodies.

The following material outlines the differences between options and futures, as well as, some of the potential uses of agricultural options.

Futures vs. Options

Commodity options have potential to help businessmen and producers manage price risk. In some instances, options can be a more appropriate vehicle than futures for this purpose.

Futures contracts oblige their owners to two equal and opposite effects. They offer their owner the opportunity to limit price risk if the market moved adversely, however, at the same time they limit profit opportunity for the commercial hedger. Any profit the hedger realizes in the futures market will be offset by losses in an opposite cash market position. Options, on the other hand, provide the opportunity, not the obligation, to buy or sell the underlying market. The holder of a sell (put) option limits market risk on the downside of the market, but does not limit profit opportunities in the underlying market if prices rise. Conversely, the purchaser of a call (or buy) option limits risk on the upside of the market, but may still take full advantage of price decline in the underlying market. A premium is paid for this right or opportunity. If the option does not become profitable during its life, the holder need only let it expire and the cost involved is then limited to the premium already paid. With options traded on exchanges it would also be possible to offset the option position in the market and receive a premium for whatever time remains in the option price.

The holder of an option has limited liability, that is, the option holder can lose only the premium, therefore, options can sometimes be a more attractive risk-management tool than futures contracts. Futures trading places the owner at risk for the full amount of any adverse price change that occurs while the futures contract is held. For instance, in the early 1970s, soybean futures contracts rose quickly from the $3 per bushel range to nearly $13. This was good news, indeed, for those with soybean inventories, **unless** they held a short futures position. Since increases in prices cause losses in short futures positions, a soybean merchant who had acquired a short futures position at $3 a bushel suffered successive losses as prices rose to around $13, wiping out the unexpected inventory profits.

But, if the same person had been able to acquire soybean option puts (the right to sell the underlying market), the merchant might have fared much better. The merchant would have paid a premium for the options. As prices rose to roughly $13 a bushel, the merchant would simply have abandoned the options, and except for the cost of the premium, could have enjoyed most of the unexpected profit in the inventory.

Options on agricultural commodities might better serve the legitimate business needs of businessmen in the agricultural sector who do not traditionally use the futures markets, including small producers.

Advantages of Options

In fact, agricultural commodity options offer a number of unique advantages for the producer and other agri-businessmen in managing price risk involving agricultural commodities. One of the major advantages of options over futures as a risk management tool is the **limited risk** involved in options. To acquire an option, you only have to pay a premium once and that is the maximum possible loss on a purchased option. The premium gives the options purchaser the right, not the obligation to buy or sell the underlying commodity at a fixed price (the strike price) on or before a date in the futures (the expiration date). However, if the purchase or sale of the commodity at the option's strike price would be unprofitable, the option may be abandoned. Therefore, options may be used as price insurance that is to assure a maximum or minimum price for an anticipated purchase or sale of the commodity in the future.

In order to use options as **price insurance**, a grain miller could purchase a call option (the right to buy the underlying commodity), thereby insuring the maximum price for the commodity. If the commodity's price were to rise above the option's strike price, the miller could exercise the option to buy and would receive a long position in the commodity. However, if the commodity's price falls below the strike price, the miller can take full advantage of the lower price in the spot market and abandon the option. The only penalty is the cost of the premium already paid. In either case, the cost of this price insurance, the option premium, is determined when the option is purchased.

Options may also be used more economically than futures when the **magnitude of risk is unclear**. For example, a producer will generally be uncertain about crop yield, but still wish to protect against possible adverse price changes and a possible decline in crop value. If the producer chooses futures to hedge the crop and establishes a larger futures position than needed, the producer actually becomes a speculator in the excess contracts, and is at serious risk. But, using options instead or as a complement to a short futures position taken on the minimum yield expected, the only risk run is that additional premiums may be paid. Using options, the producer can estimate the extent of that risk better than the risk involved in futures positions, which is the margin calls received as the market price changes.

Another advantage of options as a risk management tool is the **absence of margin calls.** The option premium is paid when the option is purchased and no other payments need to be made during the life of the option. In contrast, during their life, futures positions may generate margin calls of large and uncertain magnitude which could cause cash-flow difficulties, particularly for small producer-hedgers.

Options can also be used to manage risk by **generating additional income.** The holder of a cash commodity position can write an option on that position and receive the option premium (income) in return for granting the option. However, losses on the commodity position greater than the option premium are borne by the option writer, and any gains on the position greater than the premium accrue to the option purchaser, rather than the owner of the underlying commodity. For example, a producer holding an unhedged inventory of sugar for future sale could grant a call option (the right to buy the underlying commodity) against that inventory in return for the option premium. If the price of the sugar declines below the call option's strike price, the producer would have to absorb the losses on the inventory position. This loss would be offset only by the amount of the premium received for granting the unexercised or lapsed call option. On the other hand, if the price of the commodity rose above the call strike price the option could be exercised. The grantor would have to deliver the commodity at the option's strike price. In such a situation, the option writer forgoes any possible gain from the commodity price rise above the strike price.

Potential Traders

Agricultural commodity options would benefit all users of the commodity markets who have been traditionally hesitant to use futures markets to manage risk in marketing and purchasing commodities including small producers and end users of the commodities, such as bakers or cereal manufacturers. Producers and end users of commodities, individuals and groups at either end of the commercial channel, tend to operate their business on maximum or minimum price level expectations, while the intermediaries in agricultural commodities, such as the grain elevator operators, tend to operate and benefit from price differentials. The futures markets fix price differentials in the market while options can be used to insure maximum or minimum price levels. These producers and end users of the commodities would tend to benefit from the several unique aspects of options: the limited risk, price insurance, absence of margin calls, ability to efficiently manage risk of uncertain output or need, and the ability to generate additional income.

Comments, suggestions and questions can be sent to the Office of the Chairman, or to Jane Stuckey, Office of the Secretariat, Commodity Futures Trading Commission, 2033 K Street, N.W., Washington, D.C. 20581.

BASIC OPTIONS TERMINOLOGY AND DEFINITIONS

Call Option—a contract which gives the purchaser the right, but not the obligation to purchase a given amount of a commodity at a fixed price (the exercise price) until a specified date in the future (the expiration date).

Put Option—a contract which gives the purchaser the right, but not the obligation, to sell a given amount of a commodity at a fixed price (the exercise price) until a specified date in the future (the expiration date).

Option Grantor—one who sells an option contract and must stand ready to perform his obligations under the contract if the option purchaser exercises the option.

Exercise or Strike Price—the fixed price at which the option purchaser may buy (call) or sell (put) the commodity.

Option Premium—the market value of the option. In effect, the cost of the "price insurance."

Expiration Date—the date upon which the rights of the option purchaser expire.

AUTOMATED REPORTING REQUIREMENT

Question: The GAO has reported that the CFTC could reduce information collection burdens and enhance agency operations through use of information technology. Your response has been that this would not significantly produce cost savings or time savings for the reporting firms. Do you foresee a time by which most reporting firms will have this capability? What evidence do you have to show that the cost of requiring automated reporting would be prohibitive to most reporting firms?

Answer: At the current time, five of the major firms which report to the Commission do so on a fully automated basis. A majority of the remaining firms file the required information by updating computer listings prepared by CFTC each evening based on the information the firm filed that same morning. This reporting procedure has resulted in an efficient means for the FCMs to provide the data at relatively low costs to the Commission for information collection and processing. While some increased efficiency might result from obtaining data in a fully automated fashion from all firms, we do not believe the gain would be significant.

Because of the large number of firms that report to the Commission, it would be difficult to determine when most such firms would have the capability to report in a fully automated fashion. On a recent day, for example, the Commission's Chicago office received reports from about 150 firms. A large number of firms also report to our New York office. From the reports we receive, it would appear that the majority of firms are small and many do not have their own computer capabilities. Of the 150 reporting firms, for example, 98, or about 65 percent, reported information on 25 accounts or less. Fifty-six of these 98 firms were located outside of Chicago, and 47 of the 56 firms reported information on ten accounts or less. A number of these smaller firms as well as a few major firms use independent service organizations for bookkeeping and accounting. Although these organizations have their own computer capabilities, our discussions to date with them and the firms using their services indicate that all required Commission data currently cannot be provided in a fully automated manner within the existing timeframe for daily reporting. Any substantial delay in receiving the data greatly diminishes its value for market surveillance.

The Commission's primary focus in attempting to reduce its information collection burden is not, however, with the many small firms that report, but rather with the few large firms that provide the majority of the Commission's market surveillance data. We estimate, for example, that about 30 firms are responsible for providing 80 percent of such data. As noted above, five of the largest of these 30 firms currently are providing fully automated surveillance data. When our new computer system is completely installed and existing software is rewritten and/or converted, the Commission will pursue obtaining fully automated data from the remaining large firms.

MARKET SURVEILLANCE PROGRAM

Question: Briefly, explain how the market surveillance program works.

Answer: This issue is discussed in detail in response to a previous question concerning CFTC activities to prevent possible market manipulation.

Question: It is my understanding that an international electronic exchange for commodities has been developed. How will you institute a market surveillance program for that?

Answer: Currently there are no fully-computerized futures exchanges, although several have been proposed. If an international electronic futures exchange is established under the Commission's jurisdiction, that exchange will be included in the current Commission market surveillance program to prevent price manipulation or other market disruptions. The surveillance data required from an electronic exchange, and from futures commission merchants trading on such an exchange, will be of the same nature as that required of a traditional exchange.

An electronic exchange, however, may be able to provide the required information to the Commission in a more timely and efficient manner. Presumably, an electronic exchange would provide a better audit trail for transactions than is currently available for most traditional futures exchanges. An improved audit trail would enhance the rule enforcement program of the exchange as well as the Commission's ability to examine trade practices and conduct investigations.

PROGRESS OF CONGRESSIONALLY MANDATED STUDIES

Question: What is the progress of your economic studies mandated by the reauthorization of CFTC? Will any Fiscal Year 1985 funds be needed for these studies?

Answer: The Futures Trading Act of 1982 required the Commission to provide its Congressional oversight committees four studies: an interagency study of the futures and related markets; an inquiry into the nature, extent, and effects of trading in futures markets by persons possessing material, non-public information; a study of the activities of the largest hedgers in the livestock futures markets; and a review of the activities and accomplishments of the National Futures Association. The first two studies are to be submitted to Congress no later than September 30, 1984. A preliminary report on the large livestock hedger study was included in the Commission's 1983 Annual Report, and the completed study will be included in the Commission's 1984 Annual Report. The 1982 Act stipulates that the Commission submit its review of the National Futures Association to Congress by January 1, 1986.

The Special Study of Futures and Related Markets

The interagency study, conducted by the CFTC, SEC and the Federal Reserve Board, with assistance from the Department of the

Treasury, is well underway, and the agencies will submit one integrated document to Congress at the end of this fiscal year. The focus of the study is futures and options on financial instruments, notably options on stocks, stock indexes and debt instruments, futures contracts on stock indexes and debt instruments, and options on such futures. However, attention also is being paid to the more traditional futures markets as a basis for comparison and illustration.

To address the five areas of inquiry specified in Section 236 of the Futures Trading Act of 1982, the participating agencies have developed a comprehensive study outline and have begun drafting background and analytical chapters. The SEC and CFTC have basically parallel responsibilities. Each agency will provide a historical perspective on the economic genesis of the markets under its respective jurisdiction and how these markets have been used by hedgers, arbitrageurs and speculators.

Similarly, the evolution of the current regulatory schemes under which the stock, stock options and futures markets operate will be addressed. We are also examining potential problems in these markets, such as manipulation and the adequacy of customer protection, and the regulatory responses to such potential abuses. In addition, the study will address macro economic issues such as the effects of these markets on capital formation and monetary policy.

In order to develop data on the nature of market participants, their financial commitments, resources and investment experience, the three agencies have contracted for a telephone survey of public customers in several different markets. Commercial participants will also be interviewed to ascertain their use of these markets. In the case of futures, a sample of customers will be drawn from the information collected by a special call made on all futures commission merchants and exchange clearing members on November 11, 1983. While largely descriptive, the data collected as a result of the survey can provide important insights into the use of the markets and whether the present regulatory structure is appropriate for the types and numbers of market users identified. The CFTC regulated markets included in the telephone survey are the markets for all stock-index futures and options on stock-index futures, Treasury bond futures and options on Treasury bond futures, and corn futures.

No funding past FY 1984 has been requested for this study. However, the study may require follow-up in terms of implementation of any recommendations or regulatory actions.

Futures Trading on the Basis of Material, Non-Public Information

The Commission staff began its study of trading based on material non-public information by inquiring into several historical events which might illustrate the occurrence of such trading on commodity futures markets. These case studies included the wheat purchases by the Russians in the early 1970's, allegations of trading by persons possessing non-public information in the cattle markets, and leaks of sensitive information from various government agencies. These incidents provided the staff with an opportunity to identify certain questions which must be addressed in the insider trading study, such as issues of materiality of the information, proof, market effects and the possible extent to which such trading has been associated with these past events.

In addition, Commission staff are undertaking various empirical analyses into the extent of such trading. First, the staff is examining data obtained from the CFTC large trader reporting system to ascertain whether individuals could be identified who were trading for their own accounts in commodities connected with their employment. This empirical analysis will include a variety of representative markets, covering major types of futures contracts.

A second means the staff will use to test empirically the extent of such trading is a survey of representative firms in industries whose major product is traded on futures markets. This survey will include various firms, regardless of whether they presently trade in the futures markets, and will inquire as to the firms' policies concerning whether their employees are permitted to trade in futures markets.

Another line of inquiry centers on the historical and philosophical development of prohibitions against insider trading under Section 10(b) of the Securities and Exchange Act of 1934 and under Rule 10b-5 of the Securities and Exchange Commission. Although the CFTC does not regard such experience as dispositive in a discussion of trading commodity futures contracts on material, nonpublic information, the securities industry experience is helpful in gaining an understanding of the philosophical bases upon which such trading should be prohibited.

Although the staff has expended significant time on the study to date, much remains to be done, and no conclusions have been reached. No FY 1985 funding has been requested for this study. However, as noted in FY 1985 explanatory budget notes, the results of the study may, depending on the conclusions reached, necessitate regulatory or policy changes to be carried out in FY 1985.

Large Livestock Hedger Study

An initial report on the large livestock hedgers study, mandated by Congress in the Commission's 1982 reauthorization act, was contained in the Commission's Annual Report of 1983. This report measured the extent of large commercial participation in livestock futures markets, examined the position sizes of the largest commercials, and compared them to large speculative positions during the period October 1982 through June 1983. Comparable data for selected grain futures markets were examined to provide bases for comparing the newer livestock markets with the longer-established grain markets in terms of the proportions and absolute size of traders. These segments will be updated to include 1984 findings, and comprehensive 1983-84 conclusions will be prepared for the final report that will be contained in the Commission's 1984 Annual Report.

The large livestock hedger study will also examine the segments of the livestock and meat industry that use the futures markets and how they use them in relation to their commercial activities. Twelve reporting traders with the largest hedge positions in livestock markets were selected for this analysis, and the managers responsible for futures trading were personally interviewed. The firms are supplying monthly data for analysis beginning January 1983 and continuing through June 1984. Finally, the study will assess the impact of the largest livestock hedgers on particular futures markets. The staff will also review the market surveillance experience over the two-year study period, information on the size of large hedger positions in expiring livestock futures contracts, and other data on large hedger positions, to judge whether or not they may have caused price distortions or market disruptions.

No separate funds have been requested for the study in FY 85. The staff time required for the analysis of results and drafting of the final report during the first quarter of FY 85 will be absorbed into the ongoing activities of the Commission.

National Futures Association Study

The Commission is required by the Futures Trading Act of 1982 to examine the regulatory experience of the National Futures Association ("NFA") for the period January 1, 1983 through September 30, 1985. The bulk of the Commission's study will involve examination of the first area listed in Section 237 of the Act--the extent of NFA implementation of programs set forth in sections 17(p) and 17(q) of the Commodity Exchange Act. Section 17(p) requires NFA to adopt rules which establish training standards and proficiency testing for sales personnel, supervisors and other registrants and a program to enforce compliance with such standards; to establish minimum capital, segregation and other financial requirements and to audit and enforce compliance with such requirements; and to establish minimum standards governing the sales practices of its members and their associated persons. Section 17(q) requires NFA to develop a comprehensive program that fully implements the three regulatory programs specifically noted in Section 17(p) as well as others, such as registration of commodity professionals and the establishment of arbitration procedures for the resolution of customer disputes. The Commission's study of the other areas of inquiry enumerated in Section 237 of the 1982 Act, such as its assessment of various cost savings resulting from NFA self-regulation, problems encountered by NFA, and the impact of NFA upon the Commission and the public, will be derived primarily from the Commission's analysis of the effectiveness of NFA's actual programs.

Commission staff has been monitoring NFA's progress in each of these areas and has prepared periodic status reports to the Commission on NFA's programs. The staff has also prepared a detailed report on its review of the NFA sales practice program and has transmitted that report to NFA with a request that it provide a detailed response by October 31, 1984. Commission staff will continue to conduct sales practice oversight reviews and audits of other NFA programs through FY 1984 and FY 1985 to measure NFA's progress. Although the Commission has expended and will continue to expend significant amounts of time for this study, no special funding has been requested for this study for FY 1985. In this regard, it should be noted that much of the Commission's activity in this area is undertaken not only in connection with the mandated study but also in the discharge of the Commission's general oversight responsibilities over the various self-regulatory organizations under its jurisdiction, and the Commission will continue to monitor, review and assess NFA's performance beyond the course of the study.

TRADING ON INSIDE INFORMATION

Question: The Securities and Exchange Commission (SEC) has acknowledged that trading among those with inside information is on the rise. Do you see that occurring in the Commodity exchanges?

Answer: Section 236(b) of the Futures Trading Act of 1982 directs the Commission to conduct a study of "the nature, extent, and effects of trading in representative futures markets by persons possessing material information not generally available to the public...." This study, which is currently underway, is to be transmitted to the Senate Committee on Agriculture, Nutrition, and Forestry and to the House Committee on Agriculture by September 30, 1984.

When completed, the study will include various inquiries based on historical data and statistical analyses. In addition, it will analyze the conceptual bases of what might constitute trading on material, non-public information in the futures markets. In this regard, it should be noted that typically the futures markets may have different, more general types of information which are material to trading decisions than do the securities markets. No conclusions about the extent or incidence of trading on material, non-public information in the futures markets have yet been drawn.

EDUCATION PROGRAM

Question: What steps are you taking to educate the public concerning the futures industry?

Answer: The education program meets its mandate by: (1) publishing general and technical information about futures markets, the way they operate and their purposes; (2) participating in and sponsoring seminars and workshops about futures markets in general, the use of specific market instruments, and different aspects of regulatory responsibility; (3) providing speakers to various organizations that have an interest in the futures markets or in specific aspects of futures market activity; and (4) working with representative organizations that in turn provide information about futures markets, their purposes and functions, to their membership.

During fiscal year 1983, the education program distributed approximately 64,200 copies of general publications. These publications went to a varied audience including commercial and potential market users and educators in the university community, the futures industry, state and federal government agencies, and foreign government agencies. The agricultural producer community received special attention, in part because of the pilot program in agricultural options that the Commission initiated in FY 1983.

The Commission also has made a significant effort to increase and intensify its efforts to educate the general public concerning areas under its jurisdiction. During FY 1983, Family Circle magazine and Good Housekeeping published special articles that informed the public about the Commission's activities and encouraged individuals to contact the Commission or the Consumer Information Center in Pueblo, Colorado to obtain the Get the Facts brochure and the Spotter's Guide. In the first half of FY 1984, another article will be published in Good Housekeeping magazine which will provide information to the public about commodities trading and encourage them to seek further information. During FY 1983, approximately 20,000 of the Get the Facts brochures were distributed through the Consumer Information Center, and another 20,000 are scheduled for distribution through the Center during FY 1984. The Commission also has recently contacted the Chamber of Commerce to pursue the possibility of distributing Spotter's Guide brochures to members of local business communities through local chapters of the Chamber of Commerce.

Commission staff has also been working with the U.S. Department of Agriculture in taping and scheduling public information announcements on local TV stations about the regulatory role of the Commission in commodity futures trading, as well as about the new ag options pilot program. The U.S.D.A. programs "Down-to-Earth" and "Better Way" reach a large number of members of the public as well as agricultural producers with a format that is brief, to the point and informative.

The education program further fulfills its objectives by answering a large number of general and technical information requests from the industry, the business community, educators and the general public. The education staff also prepares periodic publications such as the attached CFTC Ag Report.

COMMODITY FUTURES TRADING COMMISSION AGREPORT

April 1984

Volume 5, Number 1

INSIDE AgREPORT

Chairman Phillips Addresses North Dakota Farmers' Union

Tosini Appointed Chief Economist and Economics and Education Director

St. Louis Ag Options Conference Announced

Wheat Growers Meet on Ag Options

USDA Extension—CFTC Ag Options Education Program Discussed

CFTC Focuses Farm Options Education on Ag Lenders

Final Ag Options Rules Approved

CFTC Combats Commodities Fraud

New and Proposed Contracts

New and Proposed Rule Changes

CFTC Speeches

CHAIRMAN PHILLIPS ADDRESSES NORTH DAKOTA FARMERS' UNION

Susan M. Phillips, Chairman of the Commodity Futures Trading Commission, spoke at the recent North Dakota Farmers' Union Convention in Minot, North Dakota. Chairman Phillips addressed the CFTC's role as an active regulator of the futures markets and gave an overview of the Commission's proposed pilot program in agricultural options. Excerpted remarks follow.

"More and more farmers are using futures markets, either directly or indirectly. Cooperatives and local elevators may be very active users in the futures markets, hedging their inventory, transferring market risks away from the farm community to professional risk takers.

By hedging not only in agricultural products but also in propane, crude and refined light oils, and even in interest rate futures, cooperatives can more accurately predict their operating costs and expected revenues and thereby make intelligent, informed decisions to plan how to give even better service.

But even at best, futures trading carries inherent risks, particularly for the individual trader or hedger. The contract size or delivery requirements of the contract may not meet the farmer's needs. Available means of transportation may not be convenient for delivery on a futures contract. All of these things may create wider basis risk than any individual farmer may want to assume. Thus, farmers often forward contract their grain sales through their local elevators who in turn hedge their commitments to farmers via futures markets.

And then, there is the question of margin calls. Even if you are perfectly hedged, short-term price moves against your position can create cash flow problems of a very serious nature.

For these, and other reasons, the Commission and the Congress worked together during 1982 to develop a plan for the reintroduction of agricultural options, trading and hedging devices that had been abused in the past, so much so that options trading was banned for many years.

Exchange-traded options may offer another alternative for farmers to manage their risks. For this reason, the Commission expects that the pilot program in ag options will be more attractive directly to farmers than the futures markets have proven to be.

Paramount among the risks not present in an options program is the risk of continuing margin calls. Because purchasers of options pay only a single premium, they know at the outset what their costs will be. Equally important, participants in the options market do not run the risk that they will be unable to benefit from a significant rise in the price of the underlying commodity. Unlike a futures contract, an options contract does not lock in a particular price but merely protects against a drop in price. Thus, options will provide farmers with a beneficial marketing tool, offering price protection without requiring the sacrifice of potential profits from favorable price movements.

The Commission has proposed that the agricultural options program be "folded into" the existing pilot program for exchange-traded options adopted in December 1981. This is consistent with the intent of Congress that ag options be subject to the same kind of regulatory scheme already in place for other options. Moreover, in the year since options began trading, the Commission has found that the program is working well and, unless a need is specifically indicated, providing for different regulations would be unneccesary and duplicative.

The Commission does anticipate, however, that agricultural options will be marketed to people in the agricultural sector of the economy who may be less familiar with futures and options trading than current traders in the existing pilot program. Therefore, the Commission intends to emphasize the need to continue the present sales practice audit programs of the self-regulatory organizations to assure that abuses do not occur, and the Commission will continue its oversight program to achieve the same goal.

Properly used, options may be of assistance to small and medium sized farming operations as they compete in the marketplace. ▪

TOSINI APPOINTED CHIEF ECONOMIST AND ECONOMICS & EDUCATION DIRECTOR

The Commodity Futures Trading Commission has announced the appointment of Dr. Paula Tosini as Chief Economist and Director of the Division of Economics and Education. Dr. Tosini has been Acting Chief Economist and Division Director since December 20, 1983.

Tosini joined the Commission staff in May 1977. Before coming to the Commission, she was an instructor and assistant professor in the Economics Department of the University of Maryland, College Park, where she taught monetary and international economics. Prior to teaching at the University of Maryland, Dr. Tosini was an economist with the Agency for International Development and a Foreign Service Officer with the Department of State.

Tosini received her bachelor's degree, summa cum laude, from Georgetown University where she also received a master's degree. She studied economics at the University of Brussels under a Fulbright scholarship and obtained her doctorate in economics at the University of Maryland, College Park. She was also a research fellow at the Brookings Institution in Washington, D.C. and has published several articles in the areas of international finance and futures and options markets.

In a recent interview with AgReport, Dr. Tosini expressed some of her views about the education program of the Economics and Education Division of the Commodity Futures Trading Commission.

"I look forward to getting to know and working with the groups that are affected by the trading of agricultural commodities on the commodity futures markets.

Our Division will continue its program of communicating and distributing information about the work of the Commission and the commodity markets to producers, market users, and agricultural economists. I feel this activity should have a high priority.

In the past year we have increased our cooperative efforts with the USDA Extension Service to develop educational material in alternative marketing to be used by state extension offices for producer education. This activity is particularly important because of the new pilot program in agricultural options that will begin trading later this year. It is a great challenge to explain this new tool in alternative marketing to the producers and the commercial marketing sector. Our Division is working with agricultural groups to bring this educational program to the grass roots. We appreciate their cooperation."

WHEAT GROWERS MEET ON AG OPTIONS

Options on agricultural commodities was high on the agenda at the National Association of Wheat Growers (NAWG) annual meeting in Denver. Darl Kleinbach, Chairman of the Commodity Futures Trading Committee moderated the January meeting at which more than 100 NAWG members attended. CFTC Commissioner Kalo Hineman reviewed the history of CFTC's options pilot program and the regulatory package on ag options that the CFTC has developed. Dr. Lowell Catlett, Department of Agricultural Economics, New Mexico State University, presented a paper entitled, "Hedging Wheat Using Commodity Options."

Representatives from the Chicago Board of Trade, Minneapolis Grain Exchange, and the Kansas City Board of Trade reported on the status of their proposed ag options contracts. Patrick Catania, Chicago Board of Trade reported that the CBT was developing an education package on ag options and that the exchange would be submitting contract proposals for soybeans and either corn or wheat. Pat Henderson, Minneapolis Grain Exchange, reported that MGE would be submitting a contract in hard red spring wheat. Kansas City Board of Trade representative Mike West said that KCBT was considering a contract in hard red winter wheat, while Ms. Kleinbach distributed specifications from the MidAmerica Commodity Exchange's proposed wheat option contract.

At the regular meeting of the Committee, a resolution was passed supporting the programs of the state extension services to increase producer marketing effectiveness. ▪

ST. LOUIS AG OPTIONS CONFERENCE ANNOUNCED

A regional conference on agricultural commodity options, cosponsored by the University of Missouri, the USDA Extension Service, and CFTC, will be held at the University of Missouri in St. Louis on June 7 and 8, 1984.

The two-day conference will provide an in-depth look at the function and mechanics of agricultural options, regulatory considerations, and risk management strategies. The participants will include a cross section of the agricultural sector--producers, elevator operators, livestock handlers, processors, brokers, and representatives of the numerous associations that serve agriculture.

CFTC Commissioner Kalo Hineman will open the conference with "Options - What and Why?" The presentation will include a history of options, definitions of terms, the legislative authorization of the pilot program, and the role and purpose of agricultural commodity options.

The second session will focus on the mechanics and functions of ag options, including who will write them, and the advantages and disadvantages of options versus futures contracts.

Exchange representatives will provide an inside look at the new instruments--how the option premium will be determined, as well as contract specifications on the ag options contracts that will have been proposed.

Richard Rudel, Chairman of the Conference and agricultural economist at the University of Missouri, will conclude the first day of the conference with a general discussion of the role of agricultural commodity options managing financial risk.

The second day of the session is designed to illustrate how ag options will work in different marketing situations. Three programs running concurrently will be offered. Participants may attend two of the three sessions: "Grain Producers", "Livestock Producers", and "Commercial Users."

"Grain Producers" will be led by Diana Klemmer, Chicago Board of Trade and Richard Rudel and William Buckley, MidAmerica Commodity Exchange. Gene Futrell, Iowa State University, and David Dupont, Chicago Mercantile Exchange, will lead the discussion on "Livestock Producers" while Gene O'Sullivan, Conti-Commodities, and Bill Channels, Clayton Brokerage, will discuss "Commercial Users."

The registration fee for the conference is $90.00 which will include lunch, reception and the conference report. Pre-conference registrations are limited to 200 people and should be sent to Education Conference on Ag Options, 344 Hearns Bldg, Columbia, Missouri 65211. Detailed programs are available upon request from this office (314/882-2429). ▪

USDA EXTENSION—CFTC AG OPTIONS EDUCATION PROGRAM DISCUSSED

Members of CFTC's staff are serving on an Extension task force coordinated by the University of Georgia to develop an education program on domestic agricultural commodities options. The education package will be presented to State Extension Service staff on October 1, 1984 through regional workshops in each region. In turn, State Extension agents will educate producers and commerical users about these new marketing instruments. This date coincides with

CFTC's projected schedule for the approval of domestic ag options contracts to be traded on commodity exchanges.

The education package, which will include manuals and visual aids, will provide an introduction to the mechanics of options, pricing theory, and risk management strategies.

The CFTC Education Unit also is working with agriculture and commodity groups, processor organizations, and others to encourage membership participation in the workshops. ▪

CFTC FOCUSES FARM OPTIONS EDUCATION PROGRAM ON AG LENDERS

Commissioner Kalo Hineman and CFTC education staff have targeted ag lenders as part of the Commission's overall ag options education program. The Commission has planned a comprehensive education program designed to educate potential producer-users about the advantages and disadvantages of options on domestic agricultural commodities.

If ag options are going to trade successfully, agricultural lenders across the U.S. will have to be both comfortable with and knowledgeable about farm options, how they work, what they cost, and what advantages and disadvantages they offer.

To increase banker awareness and knowledge about these new marketing tools, CFTC has begun work with the Farm Credit Administration (FCA), the American Bankers Association (ABA), and the Independent Bankers Association. Commission education staff has already presented an initial seminar for FCA staff in Washington. CFTC will continue these education efforts with the FCA in 1984 by developing and presenting an options program for FCA district offices, as well as developing an education package on ag options that the FCA could use at its own training center in Denver if it wishes to do so.

A series of programs on agricultural options has already been presented to the American Bankers Association, Agricultural Bankers Executive Committee, and the ABA Ag Bankers national membership during 1983. CFTC has submitted a proposal on the comparative use of options for lenders and farmers for a training session at the ABA Ag Bankers national convention in Fall 1984.

CFTC has also been working with the Independent Bankers Association to secure a commitment on their part to provide educational information about ag options to their members. Currently, the Independent Bankers are considering a series of articles on ag options in their newsletter.

In addition, CFTC's Education Unit will publish a detailed guide to ag options for the ag banker that could also be useful to the producer. The guide will cover the mechanics of options; customer safeguards; advantages and disadvantages of alternative marketing methods, including options, for both the lender and the producer; and examples of basic options transactions designed to clearly illustrate how options will work in comparison to futures contracts in different market situations. ▪

FINAL AG OPTIONS RULES APPROVED

The CFTC voted on January 16 to adopt amendments to a three-year pilot program which would permit trading of domestic commodity options on futures market exchanges. The amendments will permit the trading of options on futures contracts based on domestic agricultural commodities.

The rules adopted January 16 will become effective after 30 calendar days of continuous session of Congress after the rules are transmitted with related materials to the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition and Forestry. Notice of the effective date will be published in the Federal Register.

The agricultural commodity option rules provide that the options may be traded only on futures contracts, and not on the actual commodity.

The Commission has said ag options contracts will not be accepted officially until the expiration of the statutorily mandated period for Congressional review. Initially, only two applications per exchange will be considered by the Commission. The exchange must already be designated as a contract market for the futures contracts underlying the proposed option contract.

Trading of options on domestic agricultural commodities has been statutorily banned since 1936 when Congress enacted the Commodity Exchange Act. In 1982, Congress enacted the Futures Trading Act of 1982, which lifted the ban on domestic agricultural options and authorized the Commission to establish a pilot program of up to three years for the trading of options on "any commodity regulated in this Act prior to the date of the enactment of the Commodity Futures Trading Act of 1974..." ▪

CFTC COMBATS COMMODITIES FRAUD

The CFTC created a special unit within the Division of Enforcement that will ensure better coordination and more effective assistance to those agencies which are on the front line in the fight against illegal off-exchange commodity fraud. Robert MacNamara, Assistant Director of Enforcement for Eastern operations, will head the new unit and help states conduct commodity-related investigations and prosecutions.

The unit will work with state and federal law enforcement agencies to exchange information and facilitate cooperative enforcement actions. The special unit will also conduct seminars, conferences and training sessions for state and federal law enforcement officers and will assist in the development of legislation and regulations to deal with commodity related-issues.

The CFTC also plans to develop a commodity law violator's manual that would identify individuals and firms that have violated federal commodities laws. The list will include the names of those who have violated federal or state securities laws. ▪

NEW AND PROPOSED CONTRACTS

White Wheat, MGE. The Minneapolis Grain Exchange submitted revisions to its white wheat contract proposal, originally submitted in August 1982. The revised proposal calls for a shipping certificate delivery mechanism, which would give warehouses in the Pacific Northwest more flexibility in scheduling delivery and overcome problems due to limited storage space. The contract would specify trading in round lots of 5,000 bushels, or job lots of 1,000 bushels of U.S. Number 2 or better soft white wheat. The proposed trading months are July, September, December, March and May. Proposed minimum and maximum daily price fluctuations are ¼ cent and 20 cents per bushel, respectively. Position limits, except for hedging, would be 3 million bushels in any one future or all futures combined.

Live Cattle, CME. The Commodity Futures Trading Commission is considering a proposal by the Chicago Mercantile Exchange to amend the delivery points on its Live Cattle contract. The CME proposes to add two new par delivery points, one at Dodge City, Kansas and one at Amarillo, Texas. The Exchange also proposes to delete a par delivery point at Guymon, Oklahoma.

Feeder Cattle, CME. The Chicago Mercantile Exchange has also proposed changes to its feeder cattle contract. The changes, which are under consideration by the CFTC, would increase the average weight range for a feeder cattle delivery unit from 575-700 pounds to 600-800 pounds. Under the proposal, feeder steer delivery units averaging between 700 and 800 pounds per steer would no longer be discounted. The CME also proposed to increase the number of steers in the top one-third of USDA Number 2 muscle thickness from 10 to 18 in a par delivery unit. ▪

NEW AND PROPOSED RULE CHANGES

Live Hogs, CME. CFTC approved a change in the speculative position limits on CME's live hog contract in response to its growth in volume and open interest over the last several years.

Changes went into effect mid-January. The limit on positions a person can hold in all contract months combined at any one time has been converted from a gross to a net position limit.

New live hog speculative limits are:

1) Net long or short in all contract months combined: 1,500 contracts.
2) Long or short in any one contract month: 450 contracts
3) Long or short in spot month: 300 contracts.

Formerly, position limits restricted overall positions to 750 contracts, long and/or short. The switch from a gross to a net position limit allows inter-month spreaders more flexibility.

In addition to approving new speculative position limits on CME's live hog contract, the CFTC also approved amendments that will: 1) improve the quality of hogs being marketed commercially; 2) address packers' preference for heavier weight hogs; 3) add Sioux Falls as a delivery point; and 4) increase the discount at the St. Paul, Minnesota delivery point.

The first amendment will eliminate U.S. No. 4 grade hogs as a deliverable grade. Under the new rule, no more than 30 U.S. No. 3 grade hogs can be delivered. If 10 or fewer No. 3 grade hogs are part of the delivery load, they can be delivered at par. However, if more than 10 No. 3 grade hogs are delivered, all No. 3 grade hogs will be subject to a $2.00 per hundredweight discount.

Another revision increases the average weight of hogs from 200-230 to 210-240 lbs. A third revision will make Sioux Falls a new delivery point for live hogs. Sioux Falls is close to 13 of the nation's top hog producing counties, and the three states to be serviced by Sioux Falls accounted for more than one-third of total U.S. slaughter in 1980.

A final revision increases the discount at the St. Paul delivery point to $0.75/cwt.

Live Hogs, MACE. The CFTC approved a proposal by the Mid-America Commodity Exchange (MACE) to amend its live hog futures contract.

The Exchange proposed revisions to its live hog futures contract which would be analogous to the proposed amendments submitted last May by the Chicago Mercantile Exchange (CME) to its live hog futures contract. MACE said that the terms and conditions of the 15,000 pound live hog contract are deliberately designed to parallel the terms and conditions of the CME's 30,000 pound live hog contract in order to provide MACE members and their customers access to the liquidity and price discovery mechanism of the CME live hog futures market through inter-market spreading.

MACE said that, as a result of this parallel arrangement, an active two-for-one MACE to CME contract inter-market spread has developed, and indicates that the changes in the CME contract would have adversely affected inter-market spreaders without appropriate amendments to MACE rules.

Pork Bellies, CME. The Commodity Futures Trading Commission approved a proposal by the Chicago Mercantile Exchange (CME) to amend its frozen pork bellies futures contract.

The amendments proposed by the CME would revise the defect-discount schedule applicable to deliveries on the Exchange's frozen pork bellies futures contract. The CME believes that the proposed increase in the defect range would allow more of the commercial pork belly supply to be deliverable under the contract.

Under the proposal, the maximum number of minor defect equivalents allowed would be increased to 190 from the current 175 per sample of 50 bellies. Bellies with 176 to 190 minor defect equivalents would be deliverable at a discount of 2.5 cents per pound. Bellies with more than 190 minor defect equivalents per pound would not be deliverable under the revised contract specifications.

Reparations Rules. On February 14 the CFTC adopted final rules which revise procedures to promote greater efficiency and expeditious final disposition of reparations claims filed by customers against commodity professionals.

The final rule features three different reparations procedures with graduated fees.

The first, a voluntary written review procedure, is the quickest and is designed for cases in which both parties agree to present written arguments and accept a CFTC Judgment Officer's ruling without appeal. The filing fee for this procedure is $25.00.

The second alternative can be used for cases involving claims under $10,000. The parties can present their case orally and in writing to the Judgment Officer who will deliver an appealable decision within six months. The filing fee for this procedure is $100.00.

The third alternative, a formal hearing procedure, is available to parties only where the amount of damages claimed or counterclaimed exceeds $10,000, and at least one party does not agree to use the voluntary written review procedure. The filing fee is $200.00, and the parties are afforded the opportunity for a more traditional administrative trial-type procedure. Under this procedure, the initial decision by an administrative law judge may be appealed to the Commission, whose decision may subsequently be appealed to a U.S. Court of Appeals. ■

CFTC SPEECHES

"Futures - Options: Marketing Tools for Agriculture," Kalo Hineman. Dallas, Texas, January 10, 1984.

"Remarks of Commissioner Kalo Hineman Before the National Cattlemen's Association," New Orleans, Louisiana, January 23, 1984.

"Remarks of Commissioner Kalo Hineman Before the National Association of Wheat Growers," Denver, Colorado, January 25, 1984.

"Remarks of Commissioner Fowler West at the Regional Seminar on Cooperative and State Enforcement Actions," Los Angeles, California, February 1, 1984.

"Remarks of Commissioner Fowler West at the MidAmerica Commodity Exchange Opening," Chicago, Illinois, February 21, 1984.

"Remarks of Commissioner Kalo Hineman Before the Grain and Feed Association Annual Convention's Open Forum on Ag Options," San Francisco, California, March 11, 1984.

"Testimony of Chairman Susan Phillips Before the Subcommittee on Agricultural Research and Legislation Committee on Agriculture, Natural Resources and Forestry , U.S. Senate," March 15, 1984.

"Remarks of Susan Phillips Before the Commodity Club of Washington," Washington, D.C., March 28, 1984.

"Agricultural Options: A New Marketing Tool for Farmers," Kalo Hineman. WIBW Farm Profit '84 Seminar, Topeka, Kansas, February 28, 1984.

"Remarks of Chairman Susan Phillips Before the 9th Annual National Futures Industry Conference," Boca Raton, Florida, March 5, 1984.

"Remarks of Commissioner Fowler West Before the 9th Annual National Futures Industry Conference," Boca Raton, Florida, March 5, 1984.

"Remarks of Commissioner Kalo Hineman Before the 9th Annual National Futures Industry Conference," Boca Raton, Florida, March 5, 1984. ■

Issued quarterly by the Division of Economics and Education
Paula Tosini, Director

SEC - CFTC RELATIONSHIP

Question: What is the status of the once-popular notion in some quarters of merging CFTC and the Securities and Exchange Commission?

Answer: Although this idea has surfaced in the past, I am unaware of any recent serious proposals to merge the agencies. No such recommendation was proposed by Vice President Bush's Task Group on Regulation of Financial Services which made a comprehensive study of the regulatory structures of the two agencies. In the Commission's view, the size of the futures industry and the significant differences between the futures and securities markets warrant the application of a separately administered regulatory scheme.

RULE ENFORCEMENT REVIEW OF CHICAGO BOARD OF TRADE

Question: Last year, the CFTC released a report concerning the Chicago Board of Trade's discipline practices. Your staff recommended disapproving any new contracts the Chicago Board wanted to offer until it shaped up its discipline procedures.

Have you approved any new contracts since your staff recommended against it? Why?

Answer: On October 18, 1983, the Division of Trading and Markets presented to the Commission the 1983 rule enforcement review of the Chicago Board of Trade's compliance program. The report identified a number of deficiencies which the Division's staff believed were of serious concern, particularly, the Exchange's disciplinary practices.

Since that time, the Commission has not considered any new contract designations submitted by the CBT. On March 1, 1984, however, acting pursuant to section 5a(12) of the Commodity Exchange Act, the Commission approved proposed amendments to the CBT's Certificate Delivery Government National Mortgage Association mortgaged-backed securities contract permitting the CBT to recommence trading in GNMA-CD futures contracts. The approved amendments, which amended the terms and conditions of the GNMA contract, also changed the name of the relisted contract to GNMA-II futures.

In conjunction with consideration of these rule amendments, the Commission addressed the rule enforcement issues raised in the staff's report and considered the current status of the CBT's compliance program. This was done because the consideration of the amendments and the authorization of the CBT to resume trading in a dormant contract raised issues similar to those considered by the Commission in a new contract designation, and because the Commission has stated that an exchange must be able to demonstrate the adequacy of its rule enforcement program in the contexts of both contract designation and termination of dormant contract status.

With respect to the CBT's compliance programs, the CBT submitted a detailed response to the staff's report on January 9, 1984, and included within that response a description of a number of specific measures which it had taken, or would take within specified times, to respond to the staff's report. While the Commission's staff will be conducting a follow-up examination of the CBT's programs to assure that all specified corrective measures are implemented, based on the representations set forth in the Exchange's response of January 9, the Commission believes that the CBT's response demonstrated a commitment to assure an effective rule enforcement review program and did not pose a bar to approval of the pending GNMA II rule proposals.

The Commission's Division of Trading and Markets will undertake a follow-up review of the CBT's programs this month. Specifically, the Division plans to examine the CBT's large trader reports and the procedures which the CBT has implemented to monitor this report: review investigative files, particularly with regard to timeliness, quality and documentation; evaluate the effectiveness of the revised formulas used to screen noncompetitive trading: and examine disciplinary actions and proceedings.

CHICAGO BOARD OF TRADE SUIT

Question: On what grounds did the Chicago Board sue CFTC? On what grounds was it dismissed?

Answer: The Chicago Board of Trade sued the CFTC and the Securities and Exchange Commission seeking an injunction and declaratory judgment voiding a joint policy Interpretation regarding non-diversified stock index contracts issued by the two agencies on January 24,1984 pursuant to 1982 amendments to the Commodity Exchange Act governing stock index futures contracts, known as the "Accord."

CBT argued that this Interpretation was a rule that the agencies intended to be binding and, therefore, was required to be published for notice and comment under the Administrative Procedure Act before it could be issued in final form. CBT also argued that the Interpretation was inconsistent with the statutory standards. CBT, therefore, requested the Court to enjoin the agencies from applying the Interpretation in connection with CBT's contract applications pending before the Commission.

The agencies, consistent with representations made to Congressional subcommittees during oversight hearings, made it clear in their Court pleadings that they had announced the Interpretation not as a rule binding on the CFTC or boards of trade but, rather, to provide guidance for the industry and the public as to which contract applications are more likely, in the agencies' view, to meet the Accord standards.

The United States District Court for the Northern District of Illinois dismissed CBT's action on March 30, 1984, for lack of jurisdiction, concluding that the CBT must exhaust its administrative remedy before the Commission and further that the case was not jurisdictionally ripe for adjudication. The Court stated that the CBT, whose applications were pending before the Commission, had available to it a "detailed and statutorily prescribed review process" that should be allowed to go forward. In this regard, the Court relied on the doctrine that the agency possessing knowledge and expertise, in this case the Commission, should be allowed to decide a case in the first instance.

Question: What implications does the dismissal of this case project concerning the strength and effectiveness of CFTC?

Answer: While the Court dismissed the case on jurisdictional grounds and thus did not reach the merits of the case, it ruled in large part on the basis of judicial deference to agency expertise. In this case, the Court recognized that the Commission has primary expertise in deciding futures contracts designations and deferred to that expertise. Thus, the decision's implications are supportive of the strength and effectiveness of the CFTC.

JURISDICTIONAL ACCORD

Question: A recent newspaper article said that you adopted the new guidelines which brought about this suit to avoid being sued by the Securities and Exchange Commission. On what grounds could the SEC have sued?

Answer: The Accord recognizes the regulatory concerns of the Commission in regulating futures markets and the SEC's interest in trading of derivative instruments involving securities. The Accord thus prescribes statutory standards designed to assure, among other things, that trading in a futures contract on a stock index will not be readily susceptible to manipulation of the prices of the securities in the index and that the index will be constructed from a broad group of securities. The Accord requires both agencies to consider whether these standards have been met.

Specifically, the Accord provides that the CFTC must consult with the SEC regarding any applications for designation in stock index futures contracts submitted prior to December 9, 1982. 7 U.S.C. § 2a(iv)(I) (1982). If the SEC objects to such applications based on one or more of the statutory criteria, the Accord provides the SEC with the right to an oral, transcribed hearing before the CFTC and Court of Appeals review of any such designation granted by the CFTC over the SEC's objections. The regulatory scheme for applications submitted after December 9, 1982, provides the SEC with the power to prevent CFTC designation if the SEC's objections are not withdrawn. The SEC's action is subject to judicial review.

Before issuance of the Interpretation, the agencies considered a number of applications requiring analysis under the Accord. In November 1983, pursuant to the Accord, the SEC objected to a contract proposed by the Chicago Mercantile Exchange (CME) on the S&P Energy Index and presented its objections orally at a Commission hearing on December 6, 1983. The CFTC, however, approved the CME contract on January 11, 1984, based on its determination that the CME contract met the terms of the Accord. Because uncertainty had arisen as to the agencies' interpretations of the Accord's provisions and because the process of developing contracts is both time consuming and expensive for exchanges, the agencies promulgated joint guidelines to enable potential applicants to structure their submissions in a manner that would be consistent with how both agencies believe the Accord should be interpreted and thus would likely not be subject to Court of Appeals litigation.

PREVENTION OF MARKET MANIPULATION

Question: What is the CFTC doing to prevent possible market manipulation?

Answer: The CFTC employs a comprehensive Market Surveillance system which is designed to maintain freely competitive markets by detecting and preventing threats of price manipulation or other major market disruptions caused by abusive trading practices. The CFTC also has other surveillance programs operated by the Division of Trading and Markets. These include reviews of trading activity to detect possible noncompetitive or other illegal trading practices; audits of exchange market surveillance, disciplinary and rule enforcement programs; audits of sales practices of futures commission merchants; and surveillance of FCM compliance with CFTC rules for net capital and segregation of funds.

Prevention of market manipulation begins with the Division of Economics and Education, which conducts a careful economic analysis of all proposed futures and options contracts to assure that those contracts are not inherently susceptible to manipulation and that they are likely to serve an economic purpose.

After trading is initiated in a new contract, it is covered by CFTC's daily Market Surveillance program. The CFTC's Market Surveillance staff monitors daily, for all active futures and options contracts, the activities of large traders, key price relationships, and relevant supply and demand factors in a continuous review for potential market problems. The staff coordinates its activities with its exchange counterparts and works with them to resolve any potential market threats that may develop. Through weekly briefings, the Commissioners and senior CFTC staff are kept informed of potential problems and significant market developments so they will be prepared to take prompt regulatory action when necessary.

The Market Surveillance program is supported by an extensive automated data collection system to provide critical information to the surveillance staff on a timely basis. All futures commission merchants and exchange clearing members provide daily reports to the CFTC listing the positions of all traders above specified levels and identifying the persons who own those positions and those who control their trading. These reports are submitted to the CFTC each morning, covering the prior day's activity. The data are entered immediately into the CFTC's ADP system which then aggregates all related accounts among all FCMs and prepares detailed listings for use by the surveillance staff. These large trader reports are augmented by other data received from futures exchanges and other sources. Staff economists examine listings of large traders' positions in every actively traded futures market and other market data every day to identify any positions that could pose a threat of manipulation.

Question: Is the CFTC adequately equipped to investigate such activities?

Answer: A possible market manipulation is probably the most complex and time consuming of any violation which the Commission investigates. Most likely, a determination of whether a futures price has been manipulated requires an extensive analysis not only of the futures trading of suspected wrongdoers but the conduct and potential price impact of activities by other traders in the market. In addition, an analysis will usually be conducted of trading and prices in the cash market for the same commodity. Due to the complexity of these inquiries, the Commission's Division of Enforcement has staff located in the Headquarters office in Washington whose role is primarily the investigation and prosecution of possible market manipulations. These violations may also be pursued, however, by the Enforcement staffs in Chicago and New York. Also, for the first time, the Enforcement Division is beginning to utilize computer resources to search for and organize trading and other information that may bear upon possibly manipulative conduct. It should be emphasized that this endeavor is in the early stages and that increased computer support for this effort will be made possible by this budget request.

Question: Will the extra personnel the CFTC is requesting be adequate to enforce and monitor the markets?

Answer: The additional staff will certainly assist the CFTC in expanding its enforcement activities. As we have indicated, six of the ten new positions which have been requested for the Enforcement Division will be investigators assigned to the market centers of New York and Chicago and the Headquarters staff in Washington. It has been our experience that investigations having to do with market manipulation or other market related violations like, for example, speculative position limit violations, are investigator intensive. This is so because of the considerable amount of information which must be gathered and organized in such an undertaking. Hence, our request for extra personnel is directly related to these types of problems. The Commission feels that our responsibilities under the Act in this area can be met with this budget request so long as NFA maintains its registration schedule and so long as our leverage regulatory program does not uncover more firms or problems than we originally projected. We will undoubtedly have to request additional funds in future years if the futures industry continues to grow.

CHICAGO MERCANTILE EXCHANGE REQUEST FOR RULE CHANGE

Question: Recently I have been contacted by a number of cattlemen who have heard that the Chicago Mercantile Exchange (CME) is preparing to request a rule change to eliminate the physical delivery of feeder cattle. Is this true?

Answer: The Chicago Mercantile Exchange has indicated by informal dialogue that it may submit a rule change for the Feeder Cattle contract providing for cash settlement in place of the present physical delivery system.

Question: Have you received a request for rule changes from the CME?

Answer: We have not yet received such a rule change proposal. When and if such a proposal is received and analyzed, the

Commission staff will be available to provide Committee members and their staffs with a comprehensive briefing concerning the proposal.

Question: If the CFTC receives a request for such a rule change, will CFTC review the request carefully and allow public comment?

Answer: The Commission carefully assesses all proposed rule changes to assure that the rule changes are not in violation of the Commodity Exchange Act or the Commission's regulations. Further, since the proposal for cash settlement of a futures contract would be of major economic significance, it would be published in the Federal Register for public comment in accordance with the requirements of Section 5a(12) of the Commodity Exchange Act. These comments will also be considered by the Commission in its review of the proposal.

In determining whether to approve a proposal for cash settlement in cattle, the Commission would carefully consider several issues, including evidence that cash settlement of the contract will be based on a price which reflects the underlying cash market for the commodity and evidence that cash settlement will not be subject to manipulation. To assist in its analysis, the Commission's staff would conduct interviews with knowledgeable trade sources and review information from other available sources.

Question: If the majority of comments received are negative (against the rule change), will the CFTC deny CME's request?

Answer: Section 5a(12) of the Commodity Exchange Act requires that the Commission shall approve contract market rules proposed by contract markets if such rules are determined by the Commission not to be in violation of the Act or the Regulations of the Commission. In this regard, the Commission would consider all comments received in its review of the proposal. Each comment letter would be evaluated based on its merit relative to the provisions of the Act and the Commission's Regulations. The Commission's decision regarding approval or disapproval of the proposal would be made after consideration of information obtained by the Commission from all sources, including comments supplied by respondents to the Federal Register notice, and the recommendations of its staff.

CATTLE FUTURES

Question: Won't eliminating the physical delivery option cause further suspicion and disillusionment among cattlemen?

Answer: As noted earlier, the Commission has not yet received proposed rule changes from the Chicago Mercantile Exchange concerning the elimination of physical delivery on the feeder cattle contract. Your specific question is one that will be answered through our staff's analysis, public comment, and interviews with trade sources about any rule changes that are submitted.

Question: How would cattlemen benefit if physical delivery was eliminated?

Answer: If physical delivery were eliminated, it would be replaced by a cash settlement procedure. Such a procedure could take a number of forms. Unfortunately, since we have not received a proposal from the CME, we do not know the specifics of whatever cash settlement system they have in mind. In general, the Commission finds nothing inherently wrong with cash settlement of futures contracts, but judges such rule change proposals on a case-by-case basis.

Question: Who would benefit if physical delivery was eliminated?

Answer: Physical delivery of feeder cattle is a very small part of feeder cattle futures trades. It is utilized only by a small number of cash cattle traders and a few farmer-ranchers who happen to be located near the designated delivery points. All other cattlemen would not be affected by abolishing physical deliveries.

POTENTIAL BENEFITS OF CASH SETTLEMENT

Question: What is the reasoning for eliminating physical delivery?

Answer: The reasons for eliminating or not requiring physical delivery and the benefits to traders from doing so are specific to the contract or commodity being considered. In the past, the Commission has approved cash settlement in a number of futures contracts. For some of these contracts, physical delivery of the underlying commodity was not practical, such as with stock index and Eurodollar futures; and in one case, physical delivery had represented significant problems. This latter case involved trading in round white potatoes on the New York Mercantile Exchange. In that case, the concept of settling potato futures positions in cash met with substantial potato industry support. Firms that used the potato futures market for hedging generally expressed the belief that the proposed cash settlement mechanism, by ensuring cash-futures price convergence, would improve the hedging utility of the futures market. Moreover, Commission staff found that the use of a cash settlement mechanism based upon a cash price series reflecting the actual value of cash marketed potatoes would preclude delivery problems, such as significant quality deterioration and default, associated with the old round white potato futures contract.

CONCLUSION OF HEARINGS

Senator COCHRAN. This concludes the hearings for fiscal year 1985. We have received testimony from a number of witnesses representing programs that come under the jurisdiction of the subcommittee. I know the information will be very helpful to us.

We appreciate the cooperation of the Department and the agencies. We will stand in recess until further notice.

[Whereupon, at 3:04 p.m., Wednesday, April 4, the hearings were concluded and the subcommittee was recessed, to reconvene at the call of the Chair.]

MATERIAL SUBMITTED BY AGENCIES NOT APPEARING FOR FORMAL HEARINGS

[CLERK'S NOTE: The following agencies of the Department of Agriculture did not appear before the subcommittee this year; however, at the request of Chairman Cochran, each of these agencies did prepare and submit testimony in support of its fiscal year 1985 budget request. Upon receipt and following review of the testimony, questions were propounded to the agencies. The answers provided to the subcommittee follow each agency's prepared statement.

The subcommittee wishes to thank the agencies for their cooperation and to assure them that the information they provided will be most helpful in formulating the 1985 Agriculture appropriations bill.]

DEPARTMENT OF AGRICULTURE

OFFICE OF THE SECRETARY AND DEPARTMENTAL ADMINISTRATION

STATEMENT OF JOHN J. FRANKE, JR., ASSISTANT SECRETARY FOR ADMINISTRATION

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to appear today to discuss with you the activities and fiscal year 1985 budget request for the Office of the Secretary, Departmental Administration, the Advisory Committees, Standard Level User Charges, and the services provided to USDA agencies through the Working Capital Fund.

At the outset, I want you to know that we recognize the difficulty involved in proposing budget increases for a number of these activities at a time when many USDA programs are proposed for reduction. I want to assure the Committee that this is not something we do lightly. We believe that the increases we are requesting are modest and essential.

By way of background, it is important to understand that USDA funding and personnel resources for Department level policy direction and administrative support are among the smallest in the Federal Government, particularly when considered in light of the size and complexity of USDA programs. This is not something we wish to change. We are proud of the fact that the Department runs a tight operation at the Department level.

A brief look at history will further illustrate the point I am making. USDA agencies look to our administrative staff offices for help involving administrative systems. In recent years, a number of factors have combined to put increased pressure on these systems. One factor has been the overall growth of USDA programs. Since 1978, USDA appropriations have increased by 71 percent USDA outlays have increased by 128 percent, and the USDA credit portfolio has increased by 50 percent. Another factor has been new laws enacted by the Congress such as the Civil Service Reform Act and the Budget and Impoundment Control Act which have required significant changes in administrative systems. Finally, there has been technological progress which has brought new pressure to modernize our ADP and administrative systems.

USDA staff has dealt with these problems within very constrained resources. On a comparability basis, funding for the Office of the Secretary and Departmental Administration has grown at a rate far below that of our programs and, in fact, well below the rate of inflation. In the six years from 1978 through 1983, appropriations for these activities grew by 20 percent for the Office of the Secretary and 30 percent for Departmental Administration. Increased costs have been absorbed in many cases through reductions in personnel. Since 1980, staffing for the Office of the Secretary has declined by 10 percent and staffing for our administrative support activities has declined about 6 percent. It is, in fact, testimony to the diligence and dedication of our people that they have been able to meet these increased needs in our era of substantially reduced resources.

At this time, I would like to review some of the specific proposals for 1985.

OFFICE OF THE SECRETARY

The appropriation for the Office of the Secretary provides funds for the Secretary, the Deputy Secretary, the Under and Assistant Secretaries and their supporting staffs. The fiscal year 1985 budget request for the Office of the Secretary totals $5,240,000, a net increase of $96,000 (or about 2 percent) over the current estimate for fiscal year 1984. The increase includes $35,000 for increased pay costs associated with the Federal pay raise which was effective this past January. It also includes $72,000 to help meet increased operating costs in other areas. These increases are partially offset by a decrease of $11,000 to be achieved through tight management particularly by filling vacancies with lower graded personnel.

DEPARTMENTAL ADMINISTRATION

The fiscal year 1985 budget request for Departmental Administration is $18,697,000, a net increase of $415,000 (about 2 percent) over fiscal year 1984. The budget includes increases of $230,000 for the costs of the Federal pay raise, $56,000 to help our Administrative Law Judges and the Judicial Officer to meet increased workload in their areas, and $390,000 to strengthen Departmental ADP review and procurement procedures. The estimate also includes a reduction of $261,000 to be achieved through managing efficiently, particularly in hiring lower graded personnel to fill vacancies.

As I mentioned earlier, one of the biggest problems in the administrative area has been the effort to take advantage of new technology. Advances in ADP capability offer great opportunities for our agencies. We can significantly improve the availability of information to our field level personnel. We can improve our services to farmers and other USDA clientele. However, the very speed of progress and complexity of the ADP environment also places greater demands for effective management and solid analysis to insure that the best possible investment decisions are made. USDA agencies look to our Departmental staff offices for assistance in these areas. Current projections indicate that USDA expenditures for information technology (including ADP) are increasing rapidly. The anticipated level of $445 million in 1985 represents an increase of more than 30 percent over the 1983 level. The increase reflects both the expanded use of small and medium scale computers, as well as increased applications on large scale processors.

The increase we are requesting will provide funding to our Office of Information Resources Management and our Office of Operations to strengthen their ADP planning and review procedures. The effect of this increase will be to provide more adequate resources to work effectively with USDA agencies in meeting their needs and to provide an essential link between our agencies and external review authorities such as the General Services Administration and interested Congressional committees.

ADVISORY COMMITTEES

The Agriculture, Rural Development and Related Agencies Appropriations Act for fiscal year 1983 established a consolidated account for USDA Advisory Committees. The fiscal year 1985 budget request for Advisory Committees is $1,398,000. This is the same level of funding provided for these activities in both fiscal years 1983 and 1984.

Advisory Committees provide important assistance to the Department. USDA agencies use Advisory Committees to provide supplemental and specialized expertise from personnel in academia and the private sector on a broad range of issues. Because it is not feasible to maintain these experts as permanent staff, the Advisory Committees provide the framework for obtaining this help on an as needed basis.

While Advisory Committees serve important purposes, the Department agrees that funding should not be increased at a time of budget austerity. Excluding the Forest Service, there will be thirty-nine committees of which fourteen are established by statutes and the remaining twenty-five are established by the Department either independently or with the concurrence of interested Congressional committees.

STANDARD LEVEL USER CHARGES

This consolidated account provides funding for the Department to pay the General Services Administration for rental of space and related services. The account represents a consolidation of funds previously included within the individual appropriations requested for the various agencies and offices of the Department.

The fiscal year 1985 budget request is $67,254,000, an increase of $2.9 million above the current 1984 estimate. The budget request is our best estimate of what these charges will be in 1985. The increase represents the net effect of anticipated increases in the square footage rental rates charged by GSA and the movement by some USDA agencies from commercial space to GSA space.

WORKING CAPITAL FUND

Representatives of the Department have been working with this Committee in its oversight role in regard to the Working Capital Fund (WCF) since legislation to establish this funding mechanism in the Department was passed in 1943. We can both take pride in what has been accomplished through the fund over the forty years it has been available to the Department.

The largest WCF activity is the National Finance Center in New Orleans, Louisiana. The Center serves as a model for the entire Federal Government, pointing the way to effective provision of centralized finance, accounting, payment, personnel, and property management data processing and recordkeeping. Department Computer Centers in Washington, D.C.; Kansas City, Missouri; Ft. Collins, Colorado; and, for a while yet, St. Louis, Missouri, provide cost effective data processing services to USDA agencies. Here in Washington, the WCF provides the means to finance centralized service activities in the areas of supply, mail, printing and reproduction, forms, copier service, photography, video, film and design services.

Over the past two years, we have put in place improved management control and oversight mechanisms to insure the integrity and financial health of central service activities. Two features of this improved management control structure are: a) the Interagency Advisory Board that acts as a "Board of Directors" in reviewing these activities and advises me in my role as "Chief Executive Officer" over the fund, and b) the Comptroller who oversees the fund and is in a position to recommend to me actions that are in the best interests of overall operations of the WCF. This budget reflects careful review and scrutiny and is in keeping with overall climate of fiscal restraint.

Mr. Chairman, it is forty years since the creation of the Working Capital Fund, and in one important aspect the fund has been overtaken by time. The original law provided $400,000 in working capital. This original level of working capital has never been increased. Today, the lack of sufficient working capital impairs our ability to provide effective services to our agencies. In addition, we are leasing equipment which we should purchase. The absence of capital prevents the purchase of equipment and means that our agencies have to pay higher rates for service than would otherwise be the case. For these reasons, the fiscal year 1985 budget request includes $10 million to increase the working capital in this Fund.

We have intensively reviewed the equipment installed or planned for Working Capital Fund activities. Our analysis indicates that these activities are currently spending $3.8 million in annual lease payments for ADP and telecommunications equipment with a purchase price of about $9.9 million. Total lease payments for this equipment over its useful life (to fiscal year

1989) would be $20.6 million. If the Congress approves our appropriations request, we will be in a position to purchase this equipment and thereby achieve a net cost savings of $8.7 million over the life of the equipment. This translates into reduced costs for our agencies.

While we understand that this is a substantial appropriations request, we believe it is based on sound management principles and deserves support. We will, of course, continue our review and will hold our Working Capital Fund request to the lowest possible level, while using available resources to obtain maximum possible benefits for our user agencies.

The budget also projects overall operating levels for working capital fund activities. These operating levels are financed by USDA agencies and are based on their demand for Working Capital Fund services. The overall operating level for the Working Capital Fund in fiscal year 1985 (excluding capital equipment acquisition discussed above) is estimated at $90,712,000. This is an increase of $3.6 million (about 4 percent) over the 1984 level. Of this amount, $1.6 million is associated with increased salary costs. The remaining $2.1 million is based on workload projections and increases in non-salary operating costs. This is a net increase based on anticipated increased workload and costs in the computer centers of about $2.8 million, and a reduction of $700,000 resulting primarily from reduced volume in our USDA printing plant. The printing plant is being phased out.

Mr. Chairman, that concludes my prepared statement. We have provided additional information in our budget justifications and would be glad to provide any further details the Subcommittee may require. We are available to answer any questions you may have.

OFFICE OF THE SECRETARY

QUESTIONS SUBMITTED BY SENATOR COCHRAN

SPACE ASSIGNMENTS

Question: Has proper space been found to accommodate the Economic Research Service? What is the status of this proposed relocation?

Answer: USDA has submitted a revised request to the General Services Administration (GSA) to acquire suitable space within a delineated downtown area. GSA is processing the request and we anticipate rapid action on it.

MERIT PAY SYSTEM

Question: What percentage of USDA employees are under the merit pay system?

Answer: Ten percent of our total permanent full-time employment is under the merit pay system. There are 9,274 employees under the system.

Question: How many received merit increases in 1983?

Answer: Ten percent, or 9,256 USDA employees, received a merit pay increase in 1983.

Question: How many received cash awards under the merit pay system?

Answer: Between March 1983 and May 1984, 668 merit pay employees received cash awards based on performance during FY 1983.

Question: How many disputes involving employees in merit pay did USDA have in 1983?

Answer: Ten disputes were filed by merit pay employees during the merit pay cycle.

Question: What were the results?

Answer: The ten cases in which employees disputed their performance appraisals were resolved as follows:

No change to performance appraisal	4
Held in abeyance pending other actions	2
Performance appraisal waived as basis for granting merit pay	1
Still pending	3
Total disputes	10

SENIOR EXECUTIVE SERVICE (SES)

Question: How many SES vacancies did USDA have in fiscal 1983, in fiscal year 1984 to date?

Answer: USDA had a total of 98 vacancies in fiscal year 1983 and a total of 46 vacancies to date in fiscal year 1984.

Question: How many SES slots were requested for fiscal year 1983 and 1984?

Answer: The total number of slots requested for fiscal year 1983 was 459. For fiscal year 1984, the Department requested that our current allocation of 395 slots be retained.

Question: How many slots were allotted to USDA for those years?

Answer: The allocations granted are 395 and 375 for fiscal years 1983 and 1984, respectively.

Question: Please provide for the record an update of the SES personnel in USDA.

Answer: (The information follows:)

SENIOR EXECUTIVE SERVICE

REPORT CODES
STATUS:
CA - SES CAREER
NA - SES NONCAREER

POSITION TYPE:
G - GENERAL
CR - CAREER RESERVED

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
AGENCY: AGRICULTURAL COOPERATIVE SERVICE				
TORGERSON, RANDALL E.	ADMINISTRATOR	07/13/79	CA	G
AGENCY: AGRICULTURAL MARKETING SERVICE				
BRADER, CHARLES R.	DIRECTOR, FRUIT AND VEGETABLE DIVISION	07/13/79	CA	CR
COUGHLIN, EDWARD T.	DIRECTOR, DAIRY DIVISION	06/27/82	CA	CR
EDWARDS, LIONIEL S.	DIRECTOR, TOBACCO DIVISION	01/17/83	CA	CR
HIGHLEY, VERN F.	ADMINISTRATOR	05/30/82	NA	G
KENNETT, H. CONNOR	DIRECTOR, POULTRY DIVISION	07/13/79	CA	CR
KIMBRELL, EDDIE	DEPUTY ADMINISTRATOR, MARKETING PROGRAM OPERATIONS	07/13/79	CA	G
LATCHOLIA, KENNETH E.	ASSISTANT TO THE DEPUTY ADMINISTRATOR FOR MARKETING PROGRAM OPERATIONS	07/13/79	CA	G
MANLEY, WILLIAM T.	DEPUTY ADMINISTRATOR, MARKETING PROGRAM OPERATIONS	07/13/79	CA	G
MOORE, JESSE D.	DIRECTOR, COTTON DIVISION	07/13/79	CA	CR
NOVICK, MATTHEW N.	ASSISTANT DEPUTY ADMINISTRATOR FOR COMPLIANCE	01/23/84	CA	CR
PORTER, THOMAS H.	DIRECTOR, LIVESTOCK, POULTRY, GRAIN AND SEED DIVISION	07/13/79	CA	CR
REEVES, JOHN T.	DEPUTY ADMINISTRATOR, MANAGEMENT	10/30/83	CA	CR
SPRINGFIELD, JAMES E.	DIRECTOR, WAREHOUSE DIVISION	07/13/79	CA	CR
AGENCY: AGRICULTURAL RESEARCH SERVICE				
ARMY, THOMAS	ASSISTANT ADMINISTRATOR, NATIONAL PROGRAMS STAFF	09/07/80	CA	CR

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
BARNES, ROBERT F.	DEPUTY ADMINISTRATOR, SOUTHERN REGION	07/13/79	CA	G
BARROWS, HAROLD L.	DIRECTOR, NATIONAL SOIL EROSION RESEARCH LABORATORY	07/13/79	CA	CR
CALLIS, JERRY J.	DIRECTOR, PLUM ISLAND ANIMAL DISEASE CENTER	07/13/79	CA	CR
CARTER, MARY E.	ASSOCIATE ADMINISTRATOR, AGRICULTURAL RESEARCH	07/13/79	CA	G
CHACE, WILLIAM G.	ASSOCIATE REGIONAL ADMINISTRATOR, WESTERN REGION	07/13/79	CA	G
CORLEY, ERNEST L.	CHIEF, PROGRAM PLANNING STAFF	07/13/79	CA	G
COX H C	REGIONAL ADMINISTRATOR, WESTERN REGION	07/13/79	CA	G
DUNKLE, RICHARD L.	ASSOCIATE REGIONAL ADMINISTRATOR, NORTH CENTRAL REGION	01/06/81	CA	G
FITZGERALD, PAUL J.	DEPUTY ADMINISTRATOR, NORTH CENTRAL REGION	07/13/79	CA	G
HESSELTINE, CLIFFORD W	CHIEF, FERMENTATION LABORATORY, NORTHERN REGIONAL RESEARCH CENTER	07/13/79	CA	CR
IACONO, JAMES M.	DIRECTOR, WESTERN HUMAN NUTRITION RESEARCH CENTER	07/13/79	CA	CR
JOHNSTON, JOSEPH R.	DIRECTOR, SOUTHERN PLAINS AREA	07/13/79	CA	CR
JURD, LEONARD	RESEARCH LEADER, NATURAL PRODUCTS CHEMISTRY RESEARCH	07/13/79	CA	CR
KINNEY, TERRY B.	ADMINISTRATOR, AGRICULTURAL RESEARCH SERVICE	07/13/79	CA	G
KIRK, IVAN W.	DIRECTOR, SOUTHERN REGIONAL RESEARCH CENTER	10/17/82	CA	CR
KNIPLING, EDWARD B.	ASSOCIATE DEPUTY ADMINISTRATOR, AGRICULTURAL RESEARCH SERVICE	07/13/79	CA	CR
LASTER, DANNY B.	ASSOCIATE DEPUTY ADMINISTRATOR, NATIONAL PROGRAM STAFF	08/21/83	CA	CR
LEVIN, MARSHALL D.	DIRECTOR, USDA HONEY BEE RESEARCH LABORATORY	07/13/79	CA	CR
MAIER, VINCENT P.	RESEARCH LEADER, FRUIT AND VEGETABLE CHEMISTRY RESEARCH	07/13/79	CA	CR
MERTZ, WALTER	DIRECTOR, BELTSVILLE HUMAN NUTRITION RESEARCH CENTER	07/13/79	CA	CR
MORELAND, DONALD E.	RESEARCH LEADER, PHYSIOLOGY AND PHOTOSYNTHESIS RESEARCH	07/13/79	CA	CR

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
NIES, ARTHUR H.	DEPUTY ADMINISTRATOR FOR ADMINISTRATIVE MANAGEMENT	07/13/79	CA	CR
O'BERRY, PHILLIP A.	DIRECTOR, NATIONAL ANIMAL DISEASE CENTER	07/13/79	CA	CR
PLOWMAN, RONALD D.	DIRECTOR, ARID SOUTHWEST AREA, WESTERN REGION	04/04/83	CA	CR
PUTNAM, PAUL A.	DIRECTOR, CENTRAL PLAINS AREA AGRICULTURAL RESEARCH CENTER	06/29/80	CA	CR
RANNEY, CARLETON D.	DIRECTOR, MID-SOUTH AREA	04/17/83	CA	CR
RHODES, ROBERT A.	DIRECTOR, NORTHERN REGIONAL RESEARCH CENTER	06/28/81	CA	CR
ROTHBART, HERBERT L.	DIRECTOR, NORTH ATLANTIC AREA RESEARCH CENTER	11/02/80	CA	CR
STEERE, RUSSELL L.	CHIEF, PLANT VIROLOGY LABRATORY	07/13/79	CA	CR
STEWART, BOBBY	DIRECTOR, CONSERVATION AND PRODUCTION RESEARCH LABORATORY	01/22/84	CA	CR
TALLANT, WILLIAM H.	REGIONAL ADMINISTRATOR, NORTHEASTERN REGION	07/13/79	CA	G
VAN SCHAIK, PETER H.	AREA DIRECTOR, CALIFORNIA-HAWAII-NEVADA AREA	02/06/83	CA	CR
VAN SCHILFGAARDE, JAN	DIRECTOR, U.S. SALINITY LABORATORY	07/13/79	CA	CR
VANDEN BERG, GLEN E.	ASSOCIATE REGIONAL ADMINISTRATOR, NORTHEASTERN REGION	07/13/79	CA	G
WIEDHAAS, DONALD E.	DIRECTOR, INSECTS AFFECTING MAN LABORATORY	07/13/79	CA	CR
AGENCY: AGRICULTURAL STABLIZATION AND CONSERVATION SERVICE				
ASHWORTH, RICHARD E.	EXECUTIVE ASSISTANT TO THE ADMINISTRATOR	06/07/83	NA	G
BOTTRELL, ROGER, K.	DEPUTY ADMINISTRATOR, MANAGEMENT	04/20/82	CA	G
BRACHT, ANGELENA V.	ACCOUNTING OFFICER	06/26/83	CA	CR
BUNTROCK, GRANT B.	DIRECTOR, COTTON, GRAIN, AND RICE PRICE SUPPORT DIVISION	07/13/79	CA	G
BURKE, THOMAS G.	DIRECTOR, KANSAS CITY MANAGEMENT OFFICE	11/13/83	CA	G

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
COZART, ROY T.	ASSISTANT DEPUTY ADMINISTRATOR, STATE AND COUNTY OPERATIONS	07/26/81	NA	G
DAVIS, JAMES M.	DIRECTOR, TOBACCO AND PEANUTS DIVISION	02/19/84	CA	G
HERTZ, MILTON J.	DEPUTY ADMINISTRATOR, STATE AND COUNTY OPERATIONS	12/01/83	NA	G
HOUSER, NORMAN	DIRECTOR, KANSAS CITY COMMODITY OFFICE	11/13/83	CA	G
LEGGETT, CHAUNCEY H.JR	ASSOCIATE ADMINISTRATOR	05/31/81	NA	G
MARXMAN, MERRILL D.	DEPUTY ADMINISTRATOR, COMMODITY OPERATIONS	01/03/82	NA	G
RANK, EVERETT G. JR.	ADMINISTRATOR	05/06/81	NA	G
SINDT, ROBERT H.	ASSISTANT DEPUTY ADMINISTRATOR, COMMODITY OPERATIONS	07/12/82	CA	G
VOELKEL, RAY F.	ASSISTANT DEPUTY ADMINISTRATOR, PROGRAM PLANNING AND DEVELOPMENT	11/28/82	CA-	G
VONGARLEM, THOMAS A.	ASSISTANT DEPUTY ADMINISTRATOR, STATE AND COUNTY OPERATIONS	01/13/80	CA	G
AGENCY: ANIMAL AND PLANT HEALTH INSPECTION SERVICE				
ATWELL, JOHN T.	DEPUTY ADMINISTRATOR, VETERINARY SERVICES	07/13/79	CA	G
BUCHANAN, ROBERT L. JR	ASSISTANT DEPUTY ADMINISTRATOR FOR MANAGEMENT	10/03/82	CA	CR
CAMPBELL, DAVID S.	ASSIST. DEP. ADMIN. FOR NAT. & EMER. PROG., PLANT PROT. & QUARANTINE	08/13/80	CA	CR
FICHTNER, GERALD J.	DIRECTOR, NORTHERN REGION, VETERINARY SERVICES	07/13/79	CA	CR
FORD, HARVEY L.	DEPUTY ADMINISTRATOR, PLANT PROTECTION AND QUARANTINE	07/13/79	CA	G
HARRINGTON, RUBE JR.	DIRECTOR, NATIONAL VETERINARY SERVICES	05/13 /84		
HAWKINS, BERT W.	ADMINISTRATOR	05/01 /83	NA	G
HELMS, WILLIAM F.	ASSOCIATE DEPUTY ADMINISTRATOR, PLANT PROTECTION AND QUARANTINE	09/07/80	CA	G
HOOK, KENNETH R.	ASSOCIATE DEPUTY ADMINISTRATOR, VETERINARY SERVICES	07/13/79	CA	G
HUSNIK, DONALD F	DIRECTOR, SOUTHEASTERN REGION, PLANT PROTECTION AND QUARANTINE	02/22/81	CA	CR
JEFFERIES, JOHN C.	DIRECTOR, SOUTHEASTERN REGION, VETERINARY SERVICES	11/16/80	CA	CR

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
JOHNSON, BILLY G.	DIRECTOR, NATIONAL BRUCELLOSIS ERADICATION PROGRAM, VETERINARY SERVICE	05/01/83	CA	CR
LEE, JAMES O. JR.	ASSOCIATE ADMINISTRATOR	07/13/79	CA	G
MOORE, WILLIAM H.	DIRECTOR, SOUTH CENTRAL REGION, PLANT PROTECTION AND QUARANTINE	08/21/83	CA	CR
MORGAN, ROBERT	DIRECTOR, SOUTH CENTRAL REGION, VETERINARY SERVICES	11/27/83	CA	CR
MYERS, FRANKLIN D.	DIRECTOR, WESTERN REGION,PLANT PROTECTION AND QUARANTINE	02/05/84	CA	CR
NIGRO, CHARLES D.	DIRECTOR, NORTHEASTERN REGION, PLANT PROTECTION AND QUARANTINE	08/10/80	CA	CR
SHARMAN, EUCLID	ASSIST. DEP. ADMIN., ANIMAL HEALTH PROGRAMS, VETERINARY SERVICES	11/02/80	CA	CR
SLAGLE, LARRY B.	DEPUTY ADMINISTRATOR FOR MANAGEMENT	07/13/79	CA	CR
STRATING, ALFRED	DIRECTOR, WESTERN REGION, VETERINARY SERVICES	05/16/82	CA	CR
WARD, BASIL D.	DIRECTOR, NORTH CENTRAL REGION VETERINARY SERVICES	12/11/83	CA	CR
WILLIAMSON, ROBERT L.	DIRECTOR, NATIONAL PROGRAM PLANNING STAFFS	04/18/82	CA	CR
WILSON, SAUL T.	DIRECTOR, NATIONAL PROGRAM PLANNING STAFF, VETERINARY SERVICES	01/23/83	CA	CR
AGENCY: COOPERATIVE STATE RESEARCH SERVICE				
HARRIS, CLARE I.	ASSOCIATE DEPUTY DIRECTOR, COOPERATIVE RESEARCH	07/13/79	CA	G
JORDON, JOHN P.	ADMINISTRATOR	09/29/83	CA	G
SULLIVAN, JOHN D.	DEPUTY ADMINISTRATOR, NATURAL RESOURCES AND SPECIAL PROGRAMS	07/13/79	CA	G
AGENCY: ECONOMIC ANALYSIS STAFF				
BARR, TERRY N.	DIRECTOR	06/01/80	CA	G
AGENCY: ECONOMIC RESEARCH SERVICE				
CLAYTON, KENNETH C.	DIRECTOR, NATIONAL ECONOMIC DIVISION	05/01/83	CA	CR

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
COTNER, MELVIN L.	DEPUTY ADMINISTRATOR FOR PLANNING AND ORGANIZATIONAL RELATIONS	07/13/79	CA	CR
DEAVERS, KENNETH L.	DIRECTOR, ECONOMICS DEVELOPMENT DIVISION	07/13/79	CA	CR
HOFFMAN, GEORGE H.	ASSOCIATE ADMINISTRATOR	07/25/82	CA	CR
LEE, JOHN E. JR.	ADMINISTRATOR	07/13/79	CA	CR
MIRANOSKI, JOHN A.	DIRECTOR, NATURAL RESOURCES ECONOMICS DIVISION	05/27/ 84	CA	CR
WHITE, THOMAS	DIRECTOR, INTERNATIONAL ECONOMICS DIVISION	08/18/80	CA	CR
AGENCY: ECONOMICS MANAGEMENT STAFF				
JOHNSON, ALLAN S.	DIRECTOR	06/29/80	CA	CR
AGENCY: EXTENSION SERVICE				
BEER, CHARLES L.	DEPUTY ADMINISTRATOR, AGRICULTURE STAFF	07/13/79	CA	G
BOTTUM, JOHN S.	DEPUTY ADMINISTRATOR, PROGRAM DEVELOPMENT, EVAL. & MANAGEMENT SYSTEMS	07/13/79	CA	G
CLEGG, DENZIL O.	ASSOCIATE ADMINISTRATOR	11/03/81	CA	G
GREENWOOD, MARY NELL	ADMINISTRATOR	07/13/79	CA	G
PETOSKEY, MERRILL	ASSISTANT DEPUTY DIRECTOR, NATURAL RESOURCES	07/13/79	CA	G
RANKIN, RICHARD	DEPUTY ADMINISTRATOR, MANAGEMENT	05/18/80	CA	CR
RODGERS, AVA D.	DEPUTY ADMINISTRATOR, HOME ECONOMICS AND HUMAN NUTRITION	05/01/83	CA	G
STORMER, DONALD L.	DEPUTY ADMINISTRATOR, 4-H YOUTH DEVELOPMENT	04/ 01/84	CA	G
AGENCY: FARMERS HOME ADMINISTRATION				
BRUNNER, MICHAEL E.	ASSOCIATE ADMINISTRATOR	01/10/82	NA	G
CALHOUN, DWIGHT O.	ASSISTANT ADMINISTRATOR, COMMUNITY AND BUSINESS PROGRAMS	07/13/79	CA	CR
ELWELL, LORIMER D. JR.	ASSISTANT ADMINISTRATOR, HOUSING	07/13/79	CA	G
FURMAN, LYNN LARRY	ASSISTANT DEPUTY ADMINISTRATOR FOR AUTOMATED SYSTEMS DEVELOPMENT	06/26/83	CA	CR
GORDY, CLARENCE M.	ASSISTANT DEPUTY ADMINISTRATOR FOR PROGRAM OPERATIONS	07/13/79	CA	G

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
JEWEL, CHARLES A.	DEPUTY ADMINISTRATOR, FINANCIAL AND ADMINISTRATIVE OPERATIONS	02/21/82	CA	CR
JOHNSON, NEAL SOX	DEPUTY ADMINISTRATOR FOR PROGRAM OPERATIONS	01/14/82	NA	G
NEVERMAN, DAVID P.	ASSISTANT ADMINISTRATOR FOR PLANNING, BUDGETING AND FINANCE	06/23/83	CA	CR
SQUELLATI, CLARENCE P.	ASSISTANT ADMINISTRATOR, ACCOUNTING AND DIRECTOR, FINANCE OFFICE	07/13/79	CA	CR
STANSBERRY, ROBERT R.	ASSISTANT DEPUTY ADMINISTRATOR FOR PROGRAM OPERATIONS	06/14/81	CA	G
AGENCY: FEDERAL CROP INSURANCE CORPORATION				
BRONSON, MICHAEL A.	ASSISTANT MANAGER FOR ADMINISTRATION	11/27/83	CA	G
DULL, IVAN E.	DIRECTOR, OPERATIONS	06/27/82	NA	G
HEWS, EDWARD D.	DEPUTY MANAGER	08/19/81	NA	G
SPRAGUE, MERRITT W.	MANAGER	05/02/82	NA	G
AGENCY: FEDERAL GRAIN INSPECTION SERVICE				
GALLIART, DAVID R.	DEPUTY ADMINISTRATOR, PROGRAM OPERATIONS	07/13/79	CA	G
MALONE, LESLIE E.	ASSISTANT DEPUTY ADMINISTRATOR FOR PROGRAM OPERATIONS	07/13/79	CA	CR
AGENCY: FOOD AND NUTRITION SERVICE				
ALSPACH, DAVID B.	REGIONAL ADMINISTRATOR, SOUTHEAST REGION	07/13/79	CA	G
BRALEY, GEORGE A.	DEPUTY ADMINISTRATOR FOR SPECIAL NUTRITION PROGRAMS	10/03/82	CA	G
CONRAD, VIRGIL L.	DEPUTY ADMINISTRATOR FOR FAMILY NUTRITION PROGAMS	08/24/82	CA	G
CROW, SONIA	ASSOCIATE ADMINISTRATOR	09/01/83	NA	G
DICKEY, GENE	REGIONAL ADMINISTRATOR, SOUTHWEST REGION	07/13/79	CA	G
ELMORE, R. HICKS JR.	REGIONAL ADMINISTRATOR, WESTERN REGION	07/13/79	CA	G

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
HORNSBY, ANDREW P. JR.	REGIONAL ADMINISTRATOR, MID-ATLANTIC REGION	04/06/80	CA	G
LEARD, ROBERT E.	ADMINISTRATOR	02/22/82	NA	G
McLEAN, HAROLD T.	REGIONAL ADMINISTRATOR, NORTHEAST REGIONAL OFFICE	07/13/79	CA	G
PUGH, RAYMOND A. JR.	DEPUTY ADMINISTRATOR FOR FINANCIAL MANAGEMENT	07/13/79	CA	CR
STOKES, JOHN H. III	DIRECTOR, POLICY, PLANNING AND EVALUATION	08/25/82	NA	G
WOOD, BILLY W.	REGIONAL ADMINISTRATOR, MOUNTAIN PLAINS REGIONAL OFFICE	07/13/79	CA	G
WOODS, MONROE	REGIONAL ADMINISTRATOR, MIDWEST REGION	07/13/79	CA	G
AGENCY: FOOD SAFETY AND INSPECTION SERVICE				
BREEDEN, DONALD C.	REGIONAL DIRECTOR, WESTERN REGION	12/12/82	CA	CR
DUBBERT, WILLIAM H.	ASSISTANT DEPUTY ADMINISTRATOR, SCIENCE	11/13/83	CA	CR
ENGEL, RONALD E.	DEPUTY ADMINISTRATOR, SCIENCE	07/13/79	CA	CR
GAST, LUVERNE L.	ASSOCIATE ADMINISTRATOR	07/13/79	CA	G
GOODMAN, MILTON	ASSISTANT DEPUTY ADMINISTRATOR COMPLIANCE AND STAFF OPERATIONS	03/09/80	CA	CR
HORNE, WILSON S.	ASSISTANT DEPUTY ADMINISTRATOR, INSPECTION OPERATIONS	11/02/80	CA	CR
HOUSTON, DONALD L.	ADMINISTRATOR	07/13/79	CA	G
ISOM, NEWMAN, B.	REGIONAL DIRECTOR, SOUTHWEST REGION	07/13/80	CA	CR
McCUTCHEON, JOHN W.	ASSISTANT DEPUTY ADMINISTRATOR, TECHNICAL SERVICES	08/10/80	CA	CR
McDOUGALL, KENNETH	REGIONAL DIRECTOR, NORTH CENTRAL REGION	10/19/80	CA	CR
McNAY, MAURICE	REGIONAL DIRECTOR, NORTHEAST REGION	11/02/80	CA	CR
NELSON, MERLIN A.	DEPUTY ADMINISTRATOR, MEAT AND POULTRY INSPECTION TECHNICAL SERVICES	07/13/79	CA	G

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
POWERS, JOSEPH A.	DEPUTY ADMINISTRATOR, ADMINISTRATIVE MANAGEMENT	07/13/79	CA	CR
PRUCHA, RONALD J.	DEPUTY ADMINISTRATOR, MEAT AND POULTRY INSPECTION OPERATIONS	03/09/80	CA	G
RAY, MILTON D.	ASSISTANT DEPUTY ADMINISTRATOR, ADMINISTRATIVE MANAGEMENT	07/13/79	CA	CR
SEGAL, JUDITH A.	DIRECTOR, POLICY AND PROGRAM PLANNING	11/13/83	CA	G
SEYMOUR, CAROL	DIRECTOR, REVIEW AND EVALUATION STAFF	02/19/84	CA	G
STOLFA, PATRICIA	ASSISTANT DEPUTY ADMINISTRATOR, INTERNAL PROGRAMS	12/25/83	CA	G
WILLIS, JAMES D.	REGIONAL DIRECTOR, SOUTHEAST REGION	02/20/83	CA	CR
AGENCY: FOREIGN AGRICULTURAL SERVICE				
CANNON, RICHARD	ASSISTANT ADMINISTRATOR, INTERNATIONAL AGRICULTURAL STATISTICS	07/13/79	CA	G
DAVIS, LOUIS G.	ASSISTANT ADMINISTRATOR, MANAGEMENT	12/13/81	CA	CR
KOENIG, ERNEST	DEPUTY ASSISTANT ADMINISTRATOR, INTERNATIONAL TRADE POLICY	07/13/79	CA	G
MACKIE, PHILIP L.	DIRECTOR, OILSEEDS AND PRODUCTS DIVISION	07/13/79	CA	CR
MAYER, LEO V.	ASSOCIATE ADMINISTRATOR	10/18/81	NA	G
MINYARD, JIMMY	ASSISTANT ADMINISTRATOR, COMMODITY AND MARKETING PROGRAMS	07/13/79	CA	G
NOVOTNY, DONALD	DIRECTOR, GRAIN AND FEED DIVISION	07/13/79	CA	CR
ROSSMILLER, GEORGE	DIRECTOR, PLANNING AND ANALYSIS	11/02/79	CA	G
SIMS, MELVIN	ASSOCIATE ADMINISTRATOR AND GENERAL SALES MANAGER	05/17/81	NA	G
SINDELAR, GILBERT E.	DIRECTOR, SUGAR, HORTICULTURAL AND TROPICAL PRODUCTS DIVISION	07/13/79	CA	CR
AGENCY: FOREST SERVICE				
ALCOCK, JOHN E.	REGIONAL FORESTER, REGION 8	06/27/82	CA	G

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
AMICARELLA, LAWRENCE A	DIRECTOR, COOPERATIVE FIRE PROTECTION	05/15/83	CA	CR
ANDERSON, GERALD W.	DIRECTOR, FOREST INSECT AND DISEASE RESEARCH STAFF	07/13/79	CA	CR
ANDERSON, LEON H.	DIRECTOR, HUMAN RESOURCES PROGRAMS STAFF	07/13/79	CA	G
BANTA, HOWARD E.	DIRECTOR, MINERALS AND GEOLOGY MANAGEMENT STAFF	07/13/79	CA	CR
BAY ROGER R.	STATIONDIRECTOR, PACIFIC SOUTHWEST FOREST AND RANGE EXPERIMENT STATION	07/13/79	CA	CR
BEAN, STANLEY O. JR.	DIRECTOR, FOREST PRODUCTS AND ENGINEERING RESEARCH STAFF	03/04/84	CA	CR
BEASLEY, J. LAMAR	DEPUTY CHIEF FOR PROGRAMS AND LEGISLATION	07/13/79	CA	G
BUCKMAN, ROBERT E.	DEPUTY CHIEF, RESEARCH	07/13/79	CA	G
BURNS, DENVER P.	STATION DIRECTOR, NORTHEASTERN FOREST EXPERIMENT STATION	12/27/81	CA	CR
CARGILL, GARY E.	ASSOCIATE DEPUTY CHIEF, NATIONAL FOREST SYSTEMS	07/13/79	CA	G
CLARK, FLOYD B.	ASSOCIATE DEPUTY CHIEF FOR RESEARCH	07/13/79	CA	G
COSTON, CHARLES T.	REGIONAL FORESTER, REGION 1	07/13/79	CA	G
DORRELL, FREDERICK A.	DIRECTOR, COOPERATIVE FORESTRY STAFF	07/13/79	CA	CR
ELLIS, THOMAS H.	STATION DIRECTOR, SOUTHERN FOREST EXPERIMENT STATION	03/27/84	CA	CR
~~ERICKSON, JOHN R.~~	~~DEPUTY DIRECTOR, FOREST PRODUCTS LABORATORY~~	~~05/04/80~~	~~CA~~	~~CR~~
ETHINGTON, ROBERT L.	STATION DIRECTOR, PACIFIC NORTHWEST FOREST AND RANGE EXPERIMENT STATIO	07/13/79	CA	CR
FEUCHTER, ROY W.	DIRECTOR, RECREATION MANAGEMENT STAFF	07/13/79	CA	CR
HAMILTON, THOMAS	DIRECTOR, RESOURCES PROGRAM AND ASSESSMENT STAFF	03/23/80	CA	G
HANN, ROBERT A.	STATION DIRECTOR, NORTH CENTRAL EXPERIMENT STATION	07/13/79	CA	CR
HARTGRAVES, CHARLES R.	ASSOCIATE DEPUTY CHIEF FOR ADMINISTRATION	07/13/79	CA	CR
HASSEL, MILO J.	REGIONAL FORESTER, REGION 3	07/13/79	CA	G
HENSON, LARRY D.	REGIONAL FORESTER, REGION 9	08/07/83	CA	G

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
HILMON, JUNIOR B.	ASSOCIATE DEPUTY CHIEF, NATIONAL FOREST SYSTEMS	07/13/79	CA	G
HOUSLEY, RAYMOND M.	DEPUTY CHIEF, NATIONAL FOREST SYSTEM	07/13/79	CA	G
HULL, RICHARD D.	DIRECTOR, LANDS STAFF	07/27/80	CA	CR
JONES, DALE A.	DIRECTOR, WILDLIFE AND FISHERIES MANAGEMENT STAFF	07/13/79	CA	CR
KETCHAM, DAVID E.	DIRECTOR, ENVIRONMENTAL COORDINATION STAFF	07/13/79	CA	G
KRUGMAN, STANLEY L.	DIRECTOR, TIMBER MANAGEMENT RESEARCH STAFF	08/09/81	CA	CR
LASSEN, LAURENCE E.	STATION DIRECTOR, INTERMOUNTAIN FOREST RANGE EXPERIMENT STATION	07/13/79	CA	CR
LEONARD, GEORGE M.	DIRECTOR, TIMBER MANAGEMENT STAFF	10/03/82	CA	CR
LINDMARK, RONALD D.	DIRECTOR, FOREST ENVIRONMENT RESEARCH STAFF	01/24/82	CA	CR
LOVELESS, CHARLES M.	STATION DIRECTOR, ROCKEY MOUNTAIN FOREST RANGE EXPERIMENT STATION	07/13/79	CA	CR
MILES, JEROME A.	DEPUTY CHIEF, ADMINISTRATION	07/13/79	CA	CR
MUNIZ, SOTERO JR.	DIRECTOR, ENGINEERING STAFF	05/29/83	CA	CR
OHMAN, JOHN H.	DEPUTY CHIEF, STATE AND PRIVATE FORESTRY	07/13/79	CA	G
PETERSON, R. MAX	CHIEF	07/13/79	CA	G
PHILPOT, CHARLES W.	DIRECTOR, FOREST FIRE AND ATMOSPHERIC SCIENCES RESEARCH STAFF	08/07/83	CA	CR
RICE, WILLIAM	DIRECTOR, PROGRAM DEVELOPMENT AND BUDGET STAFF	06/01/80	CA	G
ROBERTSON, F. DALE	ASSOCIATE CHIEF	08/09/81	CA	G
ROSS, ELDON W.	STATION DIRECTOR, PACIFIC SOUTHEASTERN FOREST	07/13/79	CA	CR
SANDOR, JOHN A	REGIONAL FORESTER, REGION 10	03/13 /76	G	CA
SCHACHT, ALLEN J.	ASSOCIATE DEPUTY CHIEF FOR STATE AND PRIVATE FORESTRY	05/18/80	CA	G
SCHENARTS, THOMAS N.	DIRECTOR, NORTHEASTERN AREA FOR STATE AND PRIVATE FORESTRY	04/18/82	CA	CR
SHEA, KEITH R.	ASSOCIATE DEPUTY CHIEF FOR RESEARCH	07/13/79	CA	G

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
SIRMON, JEFF M.	REGIONAL FORESTER, REGION 6	06/01/80	CA	G
SMITH, ZANE G. JR.	REGIONAL FORESTER, REGION 5	07/13/79	CA	G
STEWART, JAMES L.	DIRECTOR, FOREST PEST MANAGEMENT STAFF	07/13/79	CA	CR
THOMAS, IRVING W.	DIRECTOR, PERSONNEL MANAGEMENT STAFF	07/13/79	CA	G
TIPTON, CLARENCE E.	DIRECTOR, FISCAL AND ACCOUNTING MANAGEMENT	06/12/83	CA	CR
TIXIER, JOHN S.	REGIONAL FORESTER, REGION 4	06/27/82	CA	G
TORRENCE, JAMES F.	REGIONAL FORESTER, REGION 2	01/08/84	CA	G
TOWLE, EVERETT L.	DIRECTOR, LAND MANAGEMENT PLANNING STAFF	06/12/83	CA	CR
TRACY, ROBERT H. JR.	DIRECTOR, WATERSHEAD AND AIR MANAGEMENT STAFF	07/13/79	CA	CR
VANCE, JOHN A.	DIRECTOR, AREA PLANNING AND DEVELOPMENT STAFF	07/13/79	CA	CR
WEST, ALLAN J.	ASSOCIATE DEPUTY CHIEF FOR PROGRAM AND LEGISLATION	10/18/81	CA	G
WHALEY, ROSS S.	DIRECTOR, FOREST RESOURCES ECONOMICS RESEARCH STAFF	07/13/79	CA	CR
WILLIAMSON, ROBERT M.	DIRECTOR, RANGE MANAGEMENT STAFF	02/20/83	CA	CR
YOUNGS, ROBERT L.	DIRECTOR, FOREST PRODUCTS LABORATORY	07/13/79	CA	CR
AGENCY: HUMAN NUTRITION INFORMATION SERVICE				
WOLF, ISABEL D.	ADMINISTRATOR	05/15/83	NA	G
AGENCY: NATIONAL AGRICULTURAL LIBRARY				
HOWARD, JOSEPH H.	DIRECTOR	07/10/83	CA	G
AGENCY: OFFICE OF BUDGET AND PROGRAM ANALYSIS				
DEWHURST, STEPHEN B.	DIRECTOR	07/13/79	CA	G
FEDKIW, JOHN	ASSOC. DIR. FOR POLICY ANALYSIS, RESOURCES PROGRAMS & SPECIAL STUDIES	07/13/79	CA	G

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
SHERMAN, ROBERT E.	DEPUTY DIRECTOR, BUDGET, LEGISLATION AND REGULATORY SYSTEMS	01/07/82	CA	G
WACHS, LAWRENCE	ASSOCIATE DIRECTOR FOR BUDGET, LEGISLATION AND PROGRAM REVIEW	07/13/79	CA	G
AGENCY: OFFICE OF EQUAL OPPORTUNITY				
ESPARZA, ALMA R	DIRECTOR	06/12/83	NA	G
AGENCY: OFFICE OF FINANCE AND MANAGEMENT				
CARSON, JOHN E.	DIRECTOR	07/13/79	CA	G
McSHAN, CLYDE	DIRECTOR, NATIONAL FINANCE CENTER	04/15/80	CA	G
RECTOR, DAVID	ASSISTANT DIRECTOR FOR PROGRAM DEVELOPMENT	07/13/79	CA	G
WILSON, LARRY JR.	DEPUTY DIRECTOR	02/10/80	CA	G
AGENCY: OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS				
DAY, LEORA G.	DIRECTOR OF INTERGOVERNMENTAL AFFAIRS	09/20/81	NA	G
GIFFORD, CLAUDE W.	DIRECTOR FOR INFORMATION	07/13/79	CA	G
AGENCY: OFFICE OF GRANTS AND PROGRAM SYSTEMS				
KENDRICK, EDGAR L.	DIRECTOR	07/13/79	CA	G
AGENCY: OFFICE OF INFORMATION RESOURCES MANAGEMENT				
HANEY, GLENN R.	DIRECTOR	07/13/79	CA	G
HEAD, ROBERT V.	DEPUTY DIRECTOR	07/13/79	CA	G
JOHNSON, OLEN L.	DIRECTOR, KANSAS CITY COMPUTER CENTER	08/18/83	CA	G
MORTON, DONALD H.	DIRECTOR, FORT COLLINS COMPUTER CENTER	08/07/83	CA	G
RIGGS, BRUCE R.	DIRECTOR, WASHINGTON COMPUTER CENTER	07/13/79	CA	G

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
AGENCY: OFFICE OF INTERNATIONAL COOPERATION AND DEVELOPMENT				
SCHERLE, ROBERT P.	ASSOCIATE ADMINISTRATOR	07/11/82	NA	G
WALLACE, JOAN S.	ADMINISTRATOR	07/13/79	CA	G
AGENCY: OFFICE OF OPERATIONS				
BUCY, CHARLES A.	DEP. DIR. FOR EXEC. SERVICES, FACILITIES AND PROCUREMENT MANAGEMENT	07/13/79	CA	G
FRAZIER, JAMES JR.	DEPUTY DIRECTOR FOR PERSONAL PROPERTY, MAIL AND REPRODUCTION	07/13/79	CA	G
GEARDE, FRANK JR.	DIRECTOR	04/08/80	CA	CR
AGENCY: OFFICE OF PERSONNEL				
HADLOCK,EARL C.	DEPUTY DIRECTOR	02/05/84	CA	G
RILEY, WILLIAM J. JR.	DIRECTOR	05/31/83	CA	G
AGENCY: OFFICE OF RURAL DEVELOPMENT POLICY				
PHILLIPS, WILLARD L.	DIRECTOR	11/10/81	NA	G
AGENCY: OFFICE OF THE GENERAL COUNSEL				
BRIZEE, CLARENCE W.	ASSISTANT GENERAL COUNSEL, NATURAL RESOURCES DIVISION	06/18/80	CA	G
CHERNAUSKAS, JOHN C.	ASSISTANT GENERAL COUNSEL, MARKETING DIVISION	07/13/79	CA	G
CIPOLLA, RONALD D.	ASSISTANT GENERAL COUNSEL, REGULATORY DIVISION	07/13/79	CA	G
DUCREST, ROSINA B.	ASSISTANT GENERAL COUNSEL, FOREIGN AGRICULTURAL & COMMODITY STABLIZATION	07/13/79	CA	G
FOWLER, RICHARD L.	ASSOCIATE GENERAL COUNSEL, COMMUNITY DEVELOPMENT & NATURAL RESOURCES	07/13/79	CA	G
GOLDEN, JOHN T.	ASSOCIATE GENERAL COUNSEL,REGULATORY AND MARKETING	07/13/79	CA	G
HINCHMAN, JAMES F.	ASSOC. GENERAL COUNSEL, PRODUCTION, DISTRIBUTION, & ASSISTANCE	07/13/79	CA	G

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
KELLY, JAMES M.	ASSOCIATE GENERAL COUNSEL, LEGISLATION, LITIGATION RESEARCH & OPERATION	07/13/79	CA	G
KELLY, MICHAEL W.	ASSISTANT GENERAL COUNSEL, ELECTRIC & TELEPHONE DIVISION	07/13/79	CA	G
LOUGHRAN, JAMES V.	ASSISTANT GENERAL COUNSEL, COMMUNITY DEVELOPMENT DIVISION	07/13/79	CA	G
NOAKES, JOHN E.	DEPUTY GENERAL COUNSEL	06/07/81	NA	G
STOKES, WILLIAM J.	ASSISTANT GENERAL COUNSEL, RESEARCH AND OPERATIONS DIVISION	07/13/79	CA	G
VAIL, KENNETH H.	ASSISTANT GENERAL COUNSEL, PACKERS AND STOCKYARDS	12/08/81	CA	G
AGENCY: OFFICE OF THE INSPECTOR GENERAL				
ADKISSON, DONN E.	ASSISTANT INSPECTOR GENERAL FOR AUDIT	05/29/83	CA	CR
BURKE, THOMAS J.	ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS	04/22/79	CA	CR
GABRIEL, ANTHONY J.	DEPUTY INSPECTOR GENERAL	11/15/81	CA	G
LONG, RICHARD D.	ASSISTANT INSPECTOR GENERAL FOR ANALYSIS AND EVALUATION	07/10/83	CA	CR
MILLER, ROBERT E.	DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDIT	06/26/83	CA	CR
RUSH, JEFFREY JR.	DEPUTY ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS	10/30/83	CA	CR
SMITH, ROBERT F.	ASSISTANT INSPECTOR GENERAL FOR SECURITY AND SPECIAL OPERATIONS	11/15/81	CA	CR
AGENCY: OFFICE OF THE SECRETARY				
ANALT, J. DAWSON	DEPUTY ASSISTANT SECRETARY FOR ECONOMICS	07/13/79	CA	G
BODE, JOHN W.	DEPUTY ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES	05/31/81	NA	G
CONE, BRUCE	DEPUTY ASSISTANT SECRETARY FOR SCIENCE AND EDUCATION	01/16/84	NA	G
CORNELIUS, SAMUEL J.	SPECIAL ASSISTANT TO THE SECRETARY	03/08/82	NA	G

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
DARLING, KAREN	DEPUTY ASSISTANT SECRETARY FOR MARKETING AND INSPECTION SERVICES	11/13/83	NA	G
FORD, JOHN E.	DEPUTY ASSISTANT SECRETARY FOR MARKETING AND INSPECTION SERVICES	04/09/81	NA	G
GOLDBERG, RICHARD W.	DEPUTY UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAM	08/01/83	NA	G
GRIZZLE, CHARLES L.	DEPUTY ASSISTANT SECRETARY FOR ADMINISTRATION	07/24/83	NA	G
HANDLEY, JAMES C.	SPECIAL ASSISTANT TO THE SECRETARY	02/25/81	NA	G
KAY, THOMAS O.	DEPUTY ASSISTANT SECRETARY FOR GOVERNMENTAL AND PUBLIC AFFAIRS	12/29/82	NA	G
LAWRENCE, KATHLEEN W.	DEPUTY UNDER SECRETARY FOR SMALL COMMUNITY AND RURAL DEVELOPMENT	05/07 /84	G	NA
LETT, RAYMOND D.	EXECUTIVE ASSISTANT TO THE SECRETARY	01/25/81	NA	G
MacCLEERY, DOUGLAS W.	DEPUTY ASSISTANT SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT	08/03/81	NA	G
MASTERSON, MICHAEL J.	STAFF ASSISTANT TO THE SECRETARY	09/20/81	NA	G
OCHS, JOHN D.	SPECIAL ASSISTANT TO THE SECRETARY	09/04/83	NA	G
SIEGEL, RICHARD D.	DEPUTY ASSISTANT SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT	07/13/81	NA	G
TRACY, ALAN T.	DEPUTY UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAM	03/29/81	NA	G
AGENCY: OFFICE OF TRANSPORTATION				
FITZPATRICK, MARTIN F.	DIRECTOR	02/16/81	NA	G
AGENCY: PACKERS AND STOCKYARDS ADMINISTRATION				
JONES, BILLY H.	ADMINISTRATOR	09/14/81	NA	G
SMITH, JAMES L.	DEPUTY ADMINISTRATOR	04/20/80	CA	G

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
AGENCY: RURAL ELECTRIFICATION ADMINISTRATION				
ARNESEN, JOHN H.	ASSISTANT ADMINISTRATOR, TELEPHONE	07/13/79	CA	G
VAN MARK, JACK	DEPUTY ADMINISTRATOR	01/12/82	NA	G
ZOLLER, JOSEPH S.	ASSISTANT ADMINISTRATOR, ELECTRIC	07/13/79	CA	G
AGENCY: SOIL CONSERVATION SERVICE				
ARNOLD, RICHARD W.	DIRECTOR, SOILS	09/07/80	CA	CR
BRIDGE, GALEN S.	ASSISTANT CHIEF, NORTHWEST	08/12/79	CA	G
BROCK, H. ALLAN	ASSOCIATE DEPUTY CHIEF FOR PLANNING AND EVALUATION	07/13/79	CA	G
BURNS, DENNIE G.	DIRECTOR, LAND TREATMENT PROGRAMS	09/07/80	CA	CR
CAMPBELL, PLATER T.	DIRECTOR, CONSERVATION PLANNING AND APPLICATION	11/14/82	CA	CR
DUESTERHAUS, RICHARD L	ASSISTANT CHIEF, MIDWEST	07/13/79	CA	G
FERGUSON, BUELL M.	DIRECTOR, ENGINEERING	09/21/80	CA	CR
FLACH, KLAUS W.	SPECIAL ASSISTANT FOR SCIENCES AND TECHNOLOGY	07/13/79	CA	CR
GILLMAN, CLETUS J.	DEPUTY CHIEF FOR STATE AND LOCAL OPERATIONS	07/13/79	CA	G
HAAS, JOSEPH W.	DEPUTY CHIEF FOR NATURAL RESOURCE PROJECTS	07/13/79	CA	G
HALSTEAD, ROBERT G.	DEPUTY CHIEF FOR ADMINISTRATION	04/06/80	CA	CR
HOWARD, PAUL M.	DEPUTY CHIEF FOR TECHNOLOGY DEVELOPMENT AND APPLICATION	07/13/79	CA	G
HYTRY, JEROME C.	ASSOCIATE DEPUTY CHIEF FOR STATE AND LOCAL OPERATIONS	09/21/80	CA	G
LEE, JERRY S.	DIRECTOR, SOUTH NATIONAL TECHNICAL CENTER	01/08/84	CA	CR
McCRACKEN, RALPH J.	DEPUTY CHIEF FOR NATURAL RESOURCES ASSESSMENTS	07/13/79	CA	G

NAME	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
MUNKITTRICK, GRAHAM T.	ASSISTANT CHIEF, NORTHEAST	12/12/82	CA	G
MYERS, PETER C.	CHIEF	04/05/82	NA	G
NELSON, EDGAR H.	DIRECTOR, BASIN AND AREA PLANNING	09/07/80	CA	CR
OKAY, JOHN L.	DIRECTOR, INFORMATION RESOURCES MANAGEMENT	09/04/83	CA	CR
PETERSON, JOHN W.	DIRECTOR, PROJECT DEVELOPMENT AND MAINTENANCE	05/16/82	CA	CR
ROCKENBAUGH, THOMAS G.	ASSISTANT CHIEF, SOUTHWEST	07/26/81	CA	G
SEINWILL, GERALD D.	ASSOCIATE DEPUTY CHIEF FOR TECHNOLOGY DEVELOPMENT AND APPLICATION	07/13/79	CA	G
SHIFLET, THOMAS N.	DIRECTOR,ECOLOGICAL SCIENCES	07/13/79	CA	CR
SUTTON, JACQUELINE G.	ASSOCIATE DEPUTY CHIEF FOR ADMINISTRATION	07/13/79	CA	CR
THOMAS, EDWARD E.	ASSISTANT CHIEF, SOUTHEAST	07/13/79	CA	G
UNGER, DAVID G.	ASSOCIATE CHIEF	12/30/79	CA	G
AGENCY: STATISTICAL REPORTING SERVICE				
ALLEN, RICHARD D.	DIRECTOR, SURVEY DIVISION	12/12/82	CA	CR
BARROWMAN, DONALD W.	DIRECTOR, ESTIMATES DIVISION	06/29/80	CA	CR
CAUDILL, CHARLES E.	DIRECTOR, STATISTICAL RESEARCH DIVISION	07/13/79	CA	CR
HANCOCK, RAYMOND R.	DIRECTOR, STATE STATISTICAL DIVISION	10/05/80	CA	CR
KIBLER, WILLIAM E.	ADMINISTRATOR	07/13/79	CA	CR
AGENCY: WORLD AGRICULTURAL OUTLOOK BOARD				
BANGE, GERALD A.	DEPUTY CHAIRPERSON	10/30/83	CA	CR
DONALD, JAMES R.	CHAIRPERSON	08/08/82	CA	CR

DEPARTMENTAL ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR COCHRAN

MANAGEMENT SAVINGS

Question: Your budget notes refer to over $2 million in cost avoidance due to simple property management practices in the Office of Operations. What management improvement practices have you planned for fiscal year 1985, and what will be their dollar benefit? What practices did the Grace Commission recommend for cost savings in Departmental Administration?

Answer: The Secretary of Agriculture has launched an internal program to review and improve administrative management systems throughout USDA. The Secretary's goals in this effort are:

- to ensure that the Department's administrative management systems and procedures facilitate prompt, effective delivery of programs, and

- to ensure that USDA programs receive the management support they need at the lowest possible cost.

In line with the President's Reform '88 Program, the Department is following four broad strategies to achieve these goals:

- Improve Management Systems and Procedures.
- Improve Agency Operations.
- Use Common-Sense, Business-Like Practices; Eliminate Mismanagement.
- Apply Sound Administrative Practices to the Delivery of Programs.

Many of the individual management improvement initiatives that are underway are long-term projects that will yield savings several years down the road. However, the Department believes that continued emphasis on these initiatives are the best interests of USDA, and the Government as a whole.

Specific improvements that will generate tangible savings in fiscal year 1985 include the following:

1. Additional consolidation of administrative support functions will save a minimum of $1.5 million. Several USDA agencies will be streamlining their support functions by organizing them into central servicing units.

2. Closing agency operated printing plants in large metropolitan areas and increasing the Department's reliance on private printing companies could possibly result in savings of about $85 thousand in FY 1985.

3. The Department will save $6.3 million under a Government-wide program announced by the Office of Personnel Management to reduce the number of employees at grade levels GS-11 through GS-15. These savings will be achieved through attrition.

4. The Department's increased attention to cash management practices will generate an interest savings of $6.4 million over and above the $113 million savings in cash reflected in the budget. The savings will accrue to the Treasury of the United States, rather than to USDA, through reduced borrowing requirements.

5. The Department will continue a program initiated in fiscal year 1983 to control the cost of external services such as workers' compensation, unemployment compensation, mail, telephone usage, and office space. Fiscal year 1985 savings could reach several million dollars.

In addition to these Department-wide programs, the individual USDA agencies are conducting internal management improvement programs with significant savings potential.

The Grace Commission report on the Department of Agriculture contains fifty-eight major recommendations, all of which deal with program agencies of the Department; there are no recommendations that are directly applicable to Departmental Administration.

Several of the "cross-cutting" Grace Commission reports on subjects such as Federal Management Systems, Personnel Management, ADP and Office Automation, and Financial Management, eventually may affect Departmental Administration in USDA and in all other Federal Departments. However, these reports have not yet been evaluated by the Administration, and it is too early to estimate what their effects may be.

Question: Is the closing of the St. Louis Computer Center complete?

Answer: No, the St. Louis Computer Center has not yet been closed down. We expect the closing of the Center to be completed by September 30, 1984.

Question: Your budget notes include a $42,000 request for an Honor Awards Ceremony. What are the major expenses which cause such an expensive ceremony?

Answer: The estimate for the Honor Awards ceremony is $19,000. The remaining $23,000 covers the cost of administering the Honor Awards program. Estimated expenses for both in FY 1985 are as

Honor Awards Ceremony:	
Acquisition of plaques and emblematic pins, preparation of certificates for awardees.......	$9,850
Printing and artwork for posters, programs, etc.; photographic work; supplies, postage, invitations, and other associated miscellaneous expenses....	7,350
Auditorium rental................................	1,800
Subtotal	$19,000

Administration of the Honor Awards Program: Staff time for identifying candidates; selecting Awards Committee members; arranging meetings; processing nominations; notifying award recipients of their selection; related tasks; and planning organizing and conducting the ceremony..............	$20,000
Awards Committee travel related to the selection of award recipients	3,000
Subtotal	$23,000
Total Expenses	$42,000

STANDARD LEVEL USER CHARGES

Question: You propose bill language to allow non-SLUC appropriated funds to be transferred, if needed, to pay for additional space necessary during the year which was unforeseen at the time of appropriation. Has there been a problem with this in the past?

Answer: The consolidated SLUC appropriation is only two years old, so our experience is limited. Under existing appropriation authorities, we can't pay SLUC costs from other appropriations, and we can't pay commercial rentals from the SLUC appropriation even when an office moves between GSA space and commercial space during the year. Last year, a problem arose when previously budgeted SLUC funds could not be used to pay the Soil and Conservation Service's commercial space costs, when they moved from GSA-leased space to commercial space partway through the year. The language we are proposing would give us the flexibility to pay bills if either situation arose.

ADVISORY COMMITTEES

Question: What part did the Office of Rural Development Policy play in the "Strategy for Rural Development in the 1980's" done by the Advisory Council on Rural Development?

Answer: A Better Country: A Strategy for Rural Development in the 1980's, was prepared for the Secretary by the Office of Rural Development Policy. Views and information were gathered from many sources, including the National Advisory Council on Rural Development.

Question: How many times did each advisory committee meet last year? Do they accomplish enough to justify maintaining them at a cost of $1.4 million? Who evaluates these committees to determine their cost-effectiveness?

Answer: Advisory Comittee meetings during FY 1983 are shown below:

Food and Consumer Services:	
National Advisory Council on Child Nutrition	1

Presidents' Task Force on Food Assistance	1
Dietary Guidelines Advisory Committee	1
Total Meetings	4
Science and Education:	
National Agricultural Research and Extension Users Advisory Board	3
Soybean Research Advisory Institute	3
National Plant Genetic Resources Board	3
Policy Advisory Committee for the Science and Education Research Grants Program	1
Policy Advisory Committee for the Science and Education Research Grants Program	1
Animal Health Science Research Advisory Board	1
Technical Advisory Committee for the Science and Education Research Grants Program	15
Cooperative Forestry Research Advisory Council	1
Committee of Nine	1
Total Meetings	30
Marketing and Inspection Services:	
Federal Grain Inspection Service Advisory Committee	4
Meat and Poultry Inspection	1
Foreign Animal and Poultry Disease.	3
Swine Health Protection	1
General Conference Committee of the National Poultry Improvement Plan	1

Advisory Committee on Instrument Standards for Cotton	3
Plant Variety Protection Board	1
Hops Marketing Advisory Board	1
Total Meetings	15
International Affairs and Commodity Programs:	
Agriculture Policy Advisory Committee for Trade................	1
Agriculture Technical Advisory Committees..........................	20
Agribusiness Promotion Council	6
Total Meetings	27
Small Community and Rural Development:	
National Advisory Council on Rural Development	3
Economics:	
National Agricultural Cost of Production Standards Review ...	1
GRAND TOTAL	82

Each of the three Advisory Committees that are not financed by appropriated funds, i.e., the Flue-Cured Tobacco Advisory Committee, the National Advisory Committee for Tobacco Inspection Service, and the Study Committee for Premiums and Discounts for Upland Cotton, met once during FY 1983.

The Department is pleased with the accomplishments of its advisory committees and believes that their contributions to Departmental policymaking are certainly worth their cost. Assistant Secretaries review the activities of committees within their policy area. When they determine that a non-statutory committee is no longer needed, they can recommend its termination. The Assistant Secretary for Administration serving as Advisory Committee Management Officer, then arranges for rescission of the committee charter if he agrees with the recommendation. Statutory committees usually have a termination date stated in the law. At any point during the year the Assistant Secretary may confer with Assistant Secretaries about terminating Advisory Committees. These conversations may result from information made available during the internal budget process, the preparation of the annual report the renewal of charters, or similar administrative processes. While the review of committees is continuing and does result in the termination of committees, the total number of commitees remains fairly stable from year to year because of the creation of new statutory and non-statutory committees as circumstances dictate.

Question: Do Farmers Home Administration appeals ever go to Administrative Law Judges?

Answer: No. Farmers Home Administration appeal procedures are not subject to the Administrative Procedure Act 5 U.S.C. 551 et. seq.

WORKING CAPITAL FUND

Question: The Working Capital Fund request is the first phase of a four year program to increase capitalization of the fund. How many do you anticipate will be requested in future years?

Answer: The actual amount for each year will be based on the capital needs of the fund, but will not exceed $10 million per year for a maximum total of $40 million to support the requirements of agencies using working capital funded services.

Question: You say you will buy equipment now being leased. Won't this limit the opportunity to lease newer, state-of-the-art equipment which may be less expensive to lease than to own? Why do you choose to buy old equipment rather than request more money to buy new equipment which would last longer?

Answer: Before capital equipment can be purchased, a comprehensive review process must be completed. This process includes a review by ADP and procurement specialists within the Department and the General Services Administration, for major acquisitions. Some of the considerations are: need for the equipment, useful life of the equipment, life of the technology, projected workload, alternate equipment, the efficiency of the equipment, and whether it is more cost beneficial to purchase or lease the equipment. Only after a thorough study of these considerations would equipment be purchased. In FY 1985, the first year funds would be available under this request, we would expect to have a base of recently installed leased equipment which will meet the criteria for purchase. We do not think that this will limit the opportunity to obtain newer, state-of-the-art equipment through purchase or lease as the expected useful life of all equipment will be part of the considerations in making lease/purchase decisions. We will not buy old or outdated equipment. Equipment currently under lease will be evaluated as explained above and a lease vs. purchase analysis will be made. If it is cost-effective to purchase the equipement and capital funds are available, then it will be purchased.

Question: For "Motion Picture, Photographic, and Other Visual Information Services" under the Working Capital Fund, the program activity table shows $2.92 million for Fiscal Year 1985. Under OGPA, costs attributable for this are $3.04 million. Why the difference?

Answer: The appearance of a difference is due to the format of the two presentations. Under the Working Capital Fund heading the amounts for Recurring Operations and for Capital Equipment Acquisitions are shown and explained separately due to their different natures. The Working Capital Fund amounts are: $2,918,000 for Recurring Operations and $118,000 (page 2-20) for Capital Equipment Acquisitions for a total of $3,036,000 to fund Motion Picture, Photographic, and Other Visual Information Services. Under the OGPA heading these two components were combined to show the total for OGPA.

Question: We understand that the administration is undertaking an extensive program of A-76 reviews to determine if contracting out operating services would be more efficient for the Federal Government. Are any of the activities in the Working Capital Fund being reviewed? Please identify each WCF activity, explain why the activity is performed centrally and why it is included in the Working Capital Fund. Describe how the activity is now operating, how many people are involved in the activity and their location, and why the activity is or is not to be included in the A-76 review program.

For those activities undergoing A-76 review, provide the planned dates for beginning the reviews and for reporting the results of the review.

Answer: All Working Capital Fund financed activities are subject to the provisions of the A-76 program and will have completed A-76 analyses during the current Department-wide review cycle, except for four activities:

The Central Supply Forms activity has already been converted to contract as a result of an A-76 review.

The Printing Plant is now in the process of being converted to contract.

The Executive Correspondence & Records activity is not required to perform an A-76 review because of the nature of the functions being performed.

The St. Louis Computer Center is expected to close at the end of FY 1984, when its activities are fully merged into the Kansas City Computer Center.

All activities included in the A-76 review process reflect the Department's desire to insure that the central services provided to USDA agencies are accomplished in the most efficient and cost effective manner possible.

All of the activities are now operated in-house with the exception of the Central Supply Forms. This activity was contracted out on March 5, 1984 after completion of an A-76 review. Most of the activities are located in the Washington Metropolitan area except for Kansas City Computer Center (Missouri), Ft. Collins Computer Center (Colorado), St. Louis Computer Center (Missouri) and National Finance Center (Louisiana).

WCF activities are operated on a centralized basis in order to obtain the cost savings available through economies of scale. reduced overhead, central cost based management, and the avoidance of duplication of effort. Centralization offers USDA agencies many advantages such as improved services, access to services which smaller agencies would not be able to provide separately, and the availability of state-of-the-art technology while operating at lower costs than provided on an individual basis.

The Working Capital Fund is an efficient method to finance operational-type activities providing services on a centralized basis. It provides business-type financing for handling capital equipment, inventories, and complete accounting for all operational costs.

A list of WCF activities undergoing A-76 review is provided:

ACTIVITY	NUMBER EMPLOYED	PLANNED DATE FOR START A-76 REVIEW	PLANNED DATE FOR REPORTING RESULTS
Central Supply Stores	9	Fiscal Year 1985	Fiscal Year 1985
Central Supply Forms	17	Completed	
Copier	21	Fiscal Year 1987	Fiscal Year 1987
Printing	45	Completed	
Automated Mailing List	6	Fiscal Year 1985	Fiscal Year 1985
Mail Distribution	42	Fiscal Year 1986	Fiscal Year 1986
Photocomposition	3	October 1986	September 1987
Executive Correspondence & Records	16	Exempt	
Computer Services	5	October 1986	September 1987
Washington Computer Center	78	February 1985	November 1985
Kansas City Computer Center	68	February 1985	November 1985
Fort Collins Computer Center	92	October 1984	July 1986
St. Louis Computer Center	2	Scheduled for closure etc.	
Design	12	January 1986	September 1986
Video/Film	10	January 1985	September 1985
Photograph	11	January 1985	September 1985
National Finance Center	1,110	October 1986	September 1986
Total	1,547		

Question: You indicate that a number of centralized services are scheduled for review to determine their continued applicability as centralized services and alternative operating methods which could result in more efficient operations. Does this refer to the so-called A-76 reviews, or does this describe some other type of review?

If different from the A-76 reviews, please list the activities involved and the nature of the review to be performed. Provide the planned dates for beginning the reviews and for reporting the results of the reviews.

Answer: The Assistant Secretary for Administration has requested long term viability assessment of Working Capital Fund activities. This assessment will take into account several reviews, many of which have already been addressed in our response to your question on A-76 reviews above. Those working Capital Fund activity "viability assessments" that are not being completed solely as A-76 are as follows:

1. Computer Center requirements studies in the Ft. Collins, Kansas City and Washington Computer Centers. These reviews focus on USDA program agency workload needs, and act as a user centered workload forecasting process.

Plans are updated annually, based on changing agency needs and computer center conditions. This ongoing reevaluation of user ADP needs permits a continuous assessment of central service effectiveness offered to the Department's agencies.

2. Mail Study. This review is a feasibility analysis of Department-wide centralized mail services. Results of the study could suggest changes in distribution services that would result in less costly, more efficient delivery of mail services. The study is in progress now under the Direction of the Office of Finance and Management, and completion is anticipated before the end of FY 1984.

3. Photocomposition/Automated Mailing List Management Study. This review examined the nature and delivery of services by the Department's central Photocomposition and Automated Mailing List Services, to achieve cost reduction measures in these areas, to improve operating efficiencies, to identify appropriate operating levels, and to reexamine the need for a centralized capability in these areas. The study was completed on March 20, 1984, and its recommendations are under review by the Assistant Secretary for Administration.

4. Review of Department-wide Automated Management Systems. This examination of Department-wide Automated Management Systems is expected to reduce the volume of papers processed in the course of central service deliveries as well as increase the effectiveness of Automated Management Systems. The project, known as Reform 88 Initiative Number One, is nearing completion after a year of study. A final report will reach the Assistant Secreatry for Administration by June 30, 1984.

5. Department Administrative Systems Review. As part of Reform 88 Initiative Number Two, a review board has been established to oversee existing and planned Department-wide Administrative Systems. This will avoid system duplications, provide an information exchange for agency managers, and greatly improve services now provided on a centralized basis.

Question: In the Explanation of Program and Program Change sections of the explanatory notes you make brief references to a large number of activities being operated in the Working Capital Fund. However, the tables and justifications only describe groupings of these activities. Please provide for the record a revision of each section of the explanatory notes, identifying and describing each activity being performed by the Working Capital Fund. Further, the Committee will expect future explanatory notes to identify, explain and justify each activity performed by the Working Capital Fund.

Answer: Listed below are the changes to the explanatory notes. Beginning with the FY 1986 explanatory notes, this is the format we will follow for the Working Capital Fund.

WORKING CAPITAL FUND

Appropriation:	
Appropriation Act, 1984	$ 0
Budget Estimate, 1985	10,000,000
Increase in Appropriation	+10,000,000

Program Activity:	
Operating Estimate, 1984	$91,712,000
Budget Estimate, 1985	102,912,000
Increase Over 1984	+11,200,000

SUMMARY OF INCREASES AND DECREASES
(Appropriation)

Item of Change	1984 Estimated	Program Changes	1985 Estimated
Increase Capitalization of the Fund	$ - -	+10,000,000	10,000,000

PROJECT STATEMENT
(On Basis of Program Activity)

Project	1983		1984 (Estimated)		Increase or Decrease	1985 (Estimated)	
	Amount	Staff Yrs.	Amount	Staff Yrs.		Amount	Staff Yrs.
1. Supp. & Other Cen. Ser.							
Central Supply Stores	$ 1,621,000	7	$ 1,669,000	9	+$ 94,000	$ 1,763,000	9
Central Supply Forms	1,490,000	15	1,534,000	17	+ 76,000	1,610,000	11
Mail Distribution Ser.	1,035,000	40	1,332,000	42	+ 13,000	1,345,000	54
Automated Mail List	384,000	7	293,000	7	- 51,000	242,000	5
Exec. Corr. & Records	646,000	12	673,000	16	+ 16,000	689,000	12
Total Supp. & Oth. Ser.	$ 5,176,000	81	$ 5,501,000	91	+$ 148,000	$ 5,649,000	91
2. Reproduction Services							
Printing Plant	$ 2,600,000	55	$ 2,033,000	45	-$ 716,000	$ 1,317,000	34
Copier Service	2,083,000	20	2,090,000	21	+ 64,000	2,154,000	26
Photocomposition	238,000	4	249,000	6	+ 6,000	255,000	5
Total Reproduction Ser.	$ 4,921,000	79	$ 4,372,000	72	-$ 646,000	$ 3,726,000	65
3. Motion Picture & Other Visual Info. Services							
Motion Picture Services	$ 569,000	8	$ 589,000	10	-$ 3,000	$ 586,000	9
Photographic Service	617,000	11	619,000	11	0	619,000	10
Visual Design Services	1,769,000	11	1,713,000	12	0	1,713,000	11
Total Visual Info. Ser.	$ 2,955,000	30	$ 2,921,000	33	-$ 3,000	$ 2,918,000	30
4. National Finance Center	$36,912,000	1,109	$39,586,000	1,110	+$ 563,000	$ 40,149,000	1,105
5. ADP Services							
Washington Comp. Cen.	$10,097,000	77	$11,358,000	83	+$ 1,615,000	$ 12,973,000	83
Ft. Collins Comp. Cen.	10,726,000	78	13,722,000	79	+ 2,540,000	16,262,000	79
Kansas City Comp. Cen.	7,633,000	71	8,906,000	74	+ 129,000	9,035,000	76
St. Louis Comp. Cen.	715,000	2	746,000	2	- 746,000	0	0
Computer Services	422,000	5	0	0	0	0	0
Total ADP Services	$29,593,000	233	$34,732,000	238	+$ 3,538,000	$ 38,270,000	238
Adjust Obligations	$(3,364,000)						
Total Recurring Oper.	76,193,000		87,112,000		+ 3,600,000	90,712,000	
Capital Equip. Acquis.	2,231,000		4,600,000		+ 7,600,000	12,200,000	
Total Obligations	$78,424,000	1,532	$91,712,000	1,544	$11,200,000	$102,912,000	1,529

EXPLANATION OF PROGRAM

The USDA Working Capital Fund was authorized in 1944 by 7 U.S.C. 2235 and is used to finance services provided to USDA agencies on a centralized basis. Under the law, only activities approved by the Director of OMB may be carried out under the fund. Centralization is recommended by the Department and approved by OMB when:

-- Centralization will result in cost savings due to:

  - Economies of scale
  - Reduced overhead
  - Central cost based management
  - Coordination which avoids duplication of effort among agencies

-- Centralization offers other advantages such as:

  - Improved services to agencies and to the public
  - Availability of services to agencies that could not afford them except on a centralized basis
  - Ability to replace equipment on a long-term basis including depreciation costs in rates charged to users

The Fund received an initial appropriation of $400,000 in 1944. Over the years additional working capital has been made available through initial transfers into the fund of activities meeting the above criteria and through Congressional authorizations to receive growth capital from serviced USDA agencies. Working Capital Fund operations are financed by charging user agencies the actual costs of providing the centralized services they require. The following services are performed for the agencies and financed through the Working Capital Fund:

Central Supply and Other Services. This service includes the following activities, and their description, under the supervision of the Office of Operations:

(a) Central Supply Stores/Forms provides for the purchase, storage, handling, issuance, packing and shipping of stationery, supplies, blank forms and miscellaneous materials;

(b) Mail Distribution provides for the operation of a USDA Post Office and Mail and Messenger services to most USDA agencies;

(c) Automated Mail List provides a computerized system for maintaining address files and producing mailing labels;

(d) Executive Correspondence and Records provides for the referral of correspondence addressed to the Secretary, the immediate Office of the Secretary and the Department to the appropriate points within the Department for preparation of replies, and operates a control system to assure the timely handling of letters.

Reproduction Services. This service in the Office of Operations includes the following activities and their description:

(a) Printing Plant furnishes printing services, including duplicating, reproduction, binding, addressing and mailing, and related services;

(b) Copier operation makes available short order and copier stations located throughout the downtown USDA complex for duplicating and copy production;

(c) Photocomposition provides copy for offset reproduction.

Motion Picture, Photographic, and Other Visual Information Services. This service is under the supervision of the Office of Governmental and Public Affairs. Listed below are descriptions of the services performed by these activities.

(a) Motion Picture Service performs the Department's video and film work;

(b) Photographic Service provides a laboratory for the processing of black and white photographs and furnishes photographer services when requested; and

(c) Visual Design Service provides a central facility for graphic design and exhibit fabrication work.

National Finance Center. This service in the Office of Finance and Management carries out the Department's fiscal and accounting policies, procedures and regulations; processes the Department's centralized payroll, personnel transactions and administrative voucher payments; serves as central contact point with commercial vendors on matters relating to payments and payments procedures; serves as central point for the Department in external financial reporting to Treasury and other agencies; and provides management reports for all agencies of the Department.

Automated Data Processing (ADP) Services. This service in the Office of Information Resources Management operates the Departmental Computer St. Louis, Missouri; and Washington, D.C. and a computer Services Unit in Washington, D.C. Listed below are the descriptions of the services performed by these activities.

(a) Departmental Computer Centers provide a full range of central information management and processing services including data entry, edit, batch, demand, data base, and networking to USDA agencies. These centers also provide technical consultation to users in developing major provide applications.

(b) Computer Services Unit provides data processing services including automated systems design, development, programming implementation, training, and provision for on-sight terminals, work stations, and communications equipment to meet user demands for the Immediate Office of the Secretary and the Departmental Staff Offices.

Question: The amounts spent for the Working Capital Fund services have increased dramatically in recent years. The explanations provided each year describe the increases as being due to a combination of workload increases and operating cost increases. Please describe the major workload increases and what agencies and programs have requested such increases over the past five years. Similarly describe the major operating cost increases, the extent to which they have exceeded overall inflationary cost index changes over the past five years and identify the activities primarily involved. Provide a table showing the portion of the overall increase each year attributed to each of these factors.

Answer: Prior to FY 1982 an obligation level ceiling limited the volume of services which could be provided through the Working Capital Fund. Necessary services beyond those which could be financed through the Working Capital Fund were funded by other means. After FY 1982 funding for all these services was provided through the Working Capital Fund. At nearly the same time a restructuring of the activities financed through the Working Capital Fund eliminated several extraneous activities and consolidated administrative and management support services costs for the remaining Working Capital Fund activities. These changes make it impossible to make an accurate comparison of Working Capital Fund activity operating costs over this period and are responsible for much of the increase to which you refer.

The activities financed by the Working Capital Fund fall into three categories. In the first category we have those activities which have had a stable workload over this period, in the second category those that have experienced a decrease in workload, and in the third those that have experienced increasing workloads over this period. Relatively stable workloads have been experienced by the Central Supply operations for Stores and Forms, the Copier, Mail Distribution, and Executive Correspondence and Records Services. The same has been true of the information services; the Design, Photographic, and Video and Film Services. In these activities cost increases have been mainly due to inflation in the prices they have had to pay for labor, materials, and other services.

Declining workloads have been the experience of the Printing Plant, the Automated Mailing List Service, and the Photocomposition Service. This has not resulted in reductions in operating costs in direct proportion to the reduction in workload due to the higher unit costs of the reduced scale of centralized operations. It has resulted in a hard look being taken at the viability of these activities as centralized service operations. As a consequence, the Printing Plant is being phased out as a centralized service and studies recently completed on the Automated Mailing List and Photocomposition Services are currently under review at the Department level.

Increasing workloads have been experienced by the Departmental Computer Centers at Ft. Collins, Colorado; Kansas City, Missouri; and Washington, D.C. as well as by the Computer Services Unit in Washington and by the National Finance Center in New Orleans, Louisiana.

Department agencies' increasing service requirements over this period have been: Forest Service and APHIS at the Ft. Collins Computer Center; the ASCS, the FCIC, and the FmHA at the Kansas City Computer Center; and all USDA Agencies for the computer activities in Washington and for the increase in the volume of transactions at the National Finance Center as the Central Accounting System and other system improvements and expansions have been implemented.

In the Departmental computer operations the workload increase has been dramatic and, together with the need to replace obsolete equipment, has overwhelmed the general downtrend in the unit cost of computer power over this period. The major areas of operating cost increases in these activities have been ADP hardware and telecommunications services to meet the increased program workloads. Increases in the volume of operating supplies have increased costs in that area. Costs for personnel have increased modestly mainly due to the annual increases in salary schedules and the effect of longevity increases as total staff years have remained relatively stable.

WORKING CAPITAL FUND
ANALYSIS OF
YEAR TO YEAR INCREASE IN OBLIGATIONS

	Amount of Increase		
Period of Increase	Attributed to Inflation	Attributed to Workload	Total
1979 - 1980	$ 5,161,376	$ -254,378	$ 4,906,998
1980 - 1981	5,211,945	11,798,266	17,010,211
1981 - 1982	4,814,061	-4,260,284	553,777
1982 - 1983	3,279,260	-598,397	2,680,863
1983 - 1984	3,521,132	5,920,494	9,441,626
1984 - 1985	3,949,013	9,559,292	13,508,305

Question: What has been done over the past five years to try to minimize the cost of Working Capital Fund activities?

Answer: In December 1981 an interagency panel of senior USDA program agency management officials presented a list of recommendations to the Secretary aimed at reducing costs and improving the efficiency of the Working Capital Fund activities. In implementing these recommendations, the Department established a "Comptroller" position to monitor the Fund's diverse program activities and make action recommendations to the Assistant Secretary for Administration. It also set up an "Interagency Review Board," to oversee WCF operations and serve the Assistant Secretary as a "Board of Directors" for WCF activities, further insuring the financial integrity of the WCF. A Working Capital Fund Staff was organized to serve the Comptroller and the Interagency Review Board by performing critical analyses and studies, as well as tracking the financial health of WCF cost centers.

Additionally, activities which were inappropriate to working capital funding methods were removed from the fund altogether, leaving in the WCF only commercial-type activities for which charges could be fairly distributed.

As a result of these initiatives Working Capital Fund administrative and management support service costs were reduced from eleven to four percent during FY 1982, creating a savings to USDA program agencies of $6.3 million over the previous year. This administrative fee has stabilized at the 4% level since FY 1982.

The Department has initiated management checks and incentives that now insure more accountability in the Working Capital Fund Cost Centers than at any time in its 34 year operation. Its actions and programs have strengthened the Working Capital Fund budgetary process and improved analysis and control of WCF activities. The budget call information now required of all WCF cost centers captures demand-based productivity data for workload forecasting to help assess personnel and capital equipment requests and estimates. This was not the case five years ago.

Lease purchase analyses for every leased piece of equipment in the WCF are now regularly prepared. With the resulting information, activity managers determine what equipment currently being leased would be more advantageous for the Government to buy, and the order of priority for these purchases. This information is updated annually by all WCF activity managers, as part of the WCF capital procurement plan and budget formulation process, resulting in cost avoidances through improved purchase decisions. During 1983, a quarterly fund review process was implemented by the WCF Comptroller. This format includes presentations by cost center managers to the WCF Review Board on the financial status of their respective operations. As a result of this regular review process, substantial cost reductions have been achieved in most WCF cost centers.

In responding to the problems present in the Working Capital Fund five years ago, the Department has achieved a level of financial integrity and service accountability that reverses the trend at the time the 1981 Task Force report was submitted.

Question: Please provide for the record a table for the past five years and the estimates for FY 1984 and 1985, showing by activity and each type of service provided, the amount spent, the amount of services provided and the unit cost of services provided.

Answer: Information on the types and volumes of services provided by the Working Capital Fund activities are not available for years prior to FY 1982. The requested tables for each activity providing data back to FY 1982 follow:

ACTIVITY AND SERVICE PROVIDED	FISCAL YEAR	COST OF SERVICES	AMOUNT OF SERVICES	UNIT COSTS OF SERVIC
Copier Service	1982	$ 2,100,000	68.0 mil	$ 0.031
Copies Produced	1983	2,287,000	67.0 mil	0.034
	1984	2,230,719	71.5 mil	0.031
	1985	2,325,000	75.0 mil	0.031
Printing Plant	1982	$ 2,565,000	95 mil	$ 0.027
Production Units	1983	2,625,000	84.9 mil	0.031
	1984	2,222,000	85 mil	0.026
	1985	1,561,000	55 mil	0.028
Photocomposition Service	1982	$ 320,000	10,000	$32.00
Pages Composed	1983	296,903	10,000	29.69
	1984	251,726	7,000	35.96
	1985	262,000	7,000	37.43
CS Forms	1982	$ 1,760,000	98,274	$ 17.91
Line Items	1983	1,499,568	83,983	17.85
	1984	1,748,210	84,000	20,82
	1985	1,829,000	82,000	22.30
CS Stores	1982	$ 1,530,000	130,422	$ 11.73
Line Items	1983	1,625,400	130,861	12.42
	1984	1,667,199	131,300	12.70
	1985	1,741,000	133,000	13.09
Automated Mailing List	1982	$ 565,000	12.9 mil	$ .044
Labels Produced	1983	384,000	4.4 mil	.087
	1984	268,172	5.4 mil	.050
	1985	279,000	6 mil	.047
Mail Distribution	1982	$ 1,012,000	9.6 mil	$ .106
Pieces of Mail Handled	1983	1,058,000	10 mil	.106
	1984	1,344,000	11 mil	.122
	1985	1,521,000	12 mil	.127
Ex. Corr. & Records	1982	$ 815,000	202,337	$ 4.02
Transactions	1983	654,892	183,696	3.56
	1984	981,724	231,669	4.23
	1985	1,022,000	243,252	4.20

ACTIVITY AND SERVICE PROVIDED	FISCAL YEAR	COST OF SERVICES	AMOUNT OF SERVICES	UNIT COST OF SERVICES
Video & Film Service				
Avg. Cost Per Job	1982	$ 730,077	278	$2,626.00
	1983	604,506	325	1,860.00
	1984	670,242	380	1,764.00
	1985	695,000	424	1,639.00
Photographic Services				
Avg. Cost Per Job	1982	$ 584,328	4,530	$ 129.00
	1983	621,985	7,183	87.00
	1984	626,332	7,900	79.00
	1985	650,000	8,100	80.24
Design Center				
Avg. Cost Per Job	1982	$ 1,493,901	1,377	$1,085.00
	1983	1,774,224	1,487	1,193.00
	1984	1,719,684	1,700	1,012.00
	1985	1,813,000	1,783	1,017.00
Washington Computer Center				
Batch Jobs	1982	$ 5,900,258	492,508	$ 11.98
	1983	6,198,680	548,413	11.30
	1984	7,146,231	677,828	10.54
	1985	9,524,881	794,477	11.98
Interactive Jobs				
	1982	$ 3,770,711	308,881	$ 12.21
	1983	4,134,175	367,460	11.25
	1984	4,570,822	381,474	11.98
	1985	6,087,119	529,651	11.49
Kansas City Computer Center				
HIS DPS8/70	1982	$ 3,934,454	374,467	$ 10.51
Batch Jobs	1983	4,083,464	344,526	11.85
	1984	4,541,836	367,708	12.36
	1985	6,193,388	386,093	16.04
HIS DPS8/70				
Interactive Jobs	1982	$ 307,657	166,249	$ 1.85
	1983	319,452	153,267	2.08
	1984	302,929	155,291	1.95
	1985	412,987	163,056	2.53
IBM Batch Jobs				
	1982	$ 2,910,531	176,866	$ 16.46
	1983	3,020,990	368,776	8.19
	1984	4,953,778	533,082	9.29
	1985	6,756,811	677,014	9.98
IBM Interactive Jobs				
	1982	$ 271,223	85,972	$ 3.15
	1983	281,591	192,457	1.46
	1984	606,906	238,143	2.54
	1985	828,812	302,442	2.74
Microfiche Original				
	1982	$ 151,058	62,181	$ 2.43
	1983	156,965	69,788	2.24
	1984	66,037	32,943	2.00
	1985	0	0	0.00
Microfiche Copies				
	1982	$ 24,591	159,708	$ .15
	1983	25,241	231,474	.10
	1984	10,482	95,144	.11
	1985	0	0	0.00

ACTIVITY AND SERVICE PROVIDED	FISCAL YEAR	COST OF SERVICE	AMOUNT OF SERVICES	UNIT COSTS
Ft. Collins Computer Center Resource Hours - Demand	1982	$ 1,210,000	12,898	$ 93.00
	1983	1,196,000	13,604	88.00
	1984	1,405,000	18,279	77.00
	1985	1,702,000	22,331	76.00
Resource Hours - Batch	1982	$10,885,000	104,361	$104.00
	1983	9,671,000	110,066	88.00
	1984	11,372,000	147,893	77.00
	1985	13,774,000	180,682	76.00
St. Louis Computer Center Batch Jobs	1982	$ 1,644,979	252,146	$ 6.52
	1983	714,611	284,924	2.51
	1984	898,696	302,000	2.98
	1985	0	0	0.00
National Finance Center Documents Processed	1982	$33,965,000	12,955,144	$ 2.62
	1983	37,395,000	13,448,363	2.78
	1984	40,225,405	13,900,000	2.89
	1985	43,161,000	14,500,000	2.98

Question: You are requesting funds to begin a major equipment acquisition program. Why do you want to discontinue leasing practices used in the past? If workloads are changing significantly, wouldn't the lease approach make it easier to respond to such changes? How will the switch from lease to purchase of equipment impact the agencies receiving services from the Working Capital Fund activities?

Answer: In those cases where an item of equipment will be used long enough for the costs of leasing to exceed the cost of initial purchase, it is a cost avoidance to purchase it providing the funds are available. In such a case the greater flexibility of the lease approach comes as an unnecessary expense to the government. The National Finance Center and the computer centers have made long-term forecasts which include: projected service demand, systems equipment expected life, and estimated life of technology in preparation for this major equipment acquisition program. The agencies receiving services from the Working Capital Fund activities in which this equipment is used will benefit through lower costs for the services they receive than would be the case if a higher cost equipment acquisition method were chosen.

Question: You are requesting increases to both purchase more equipment and lease more equipment. This would seem to indicate very large workload increases for FY 1985 at a time when many agencies' programs and staffing are proposed for reduction. Would you explain what appears to be an inconsistency?

Answer: The reductions in resources being experienced by agencies means that they must find more efficient ways of accomplishing their program purposes. Information needed to manage efficiently and operate programs effectively do not necessarily diminish in proportion to the reduction in resources available to accomplish the mission of an agency.

Although agencies are experiencing reductions, they still must meet the program information needs of the public, the Congress, and their management in the most timely and cost efficient method possible. In many cases this entails increased use of centralized ADP systems and data bases at the Departmental Computer Centers and the National Finance Center. The Working Capital Fund FY 1985 Budget for the Computer Centers and National Finance Center represents $90,501,000 of the total $102,912,000 or 88% as compared with FY 1979 when it represented only 81%.

Question: Each year there is a lot of discussion about "management initiatives", management improvements", and "cost savings". At the same time, costs still seem to be going up dramatically. What has been done to contain or reduce costs of departmental level administrative staff activities?

Please provide your explanation in the context of the following data for the past five years:

- o The general inflationary index increased about 40%
- o Departmental Administration appropriations increased about 75%
- o Reimbursements to departmental administration increased about 450%
- o Management support service fees to the Working Capital Fund increased about 150% and staffing for such services increased about 35% even though the staffing for the Working Capital Fund and the activities performed appeared to have stayed about the same over the five year period.

Answer: Departmental Administration is a dynamic area which has experienced significant change over the past five years. Some activities such as the Office of Governmental and Public Affairs have been transferred out of the Departmental Administration appropriation. Since FY 1979 the Office of Small and Disadvantaged Business Utilization has been established by the direction of the Congress, and responsibility for funding the Office of Administrative Law Judges and the Judicial Officer and the Office of Information Resources Management Headquarters has been transferred into Departmental Administration.

Activities funded by the Departmental Administration appropriation in FY 1979 and 1983 are presented in a Table for comparison. What appears to be a large percentage increase is primarily the result of a change in financing methods for several activities.

Only adjustments for those transfers and adjustments which had major impact on the Departmental Administration Appropriation are included in the table below. The activities which can be tracked over this time period do not show increases significantly greater than that expected due to inflation, and some activities show levels of increase significantly below the expected level of inflation. Where this is the case it is the result of the management initiatives, improvements, and cost reductions mentioned in our Explanatory Notes.

For administrative office reimbursements, the table also compares the levels of funding in FY 1979 and 1983 for those activities that can be tracked over this period. Non-recurring, one time reimbursements, miscellaneous personnel details, and reimbursements for activities that have been eliminated since FY 1979 are not included in this table. Most of the increases in reimbursements since FY 1979 are for new or expanded functions such as the central excess property pool and the cost management program to meet the needs of USDA agencies.

TABLE OF ANNUAL OBLIGATIONS FROM DEPARTMENTAL ADMINISTRATION ACTIVITIES/STAFF OFFICES WHICH CAN BE PLACED ON A COMPARABLE BASIS

ACTIVITY/STAFF OFFICE	APPROPRIATION 1979	APPROPRIATION 1983	REIMBURSEMENTS 1979	REIMBURSEMENTS 1983
Budget & Prog. Anal.	2,664	3,539	91	0
Index (FY 1979 = 100)	100.00	132.85	100.00	0
Personnel	1,701	2,685	675	1,173
Index (FY 1979 = 100)	100.00	157.85	100.00	263.06
Equal Oportunity	2,097	2,121	0	30
Index (FY 1979 = 100)	100.00	101.14	0	0
Oper., Fin. & Mgt	3,925	4,315	90	876
Index (FY 1979 = 100)	100.00	109.94	100.00	973.33
Small & Dis Bus Util	0	301	0	0
Index (FY 1980 = 100)		102.38	0	0
Admin Law Judges	512	798 1/	25	23
Index (FY 1979 = 100)				
Information Resources Management Index (FY 1982 = 100)	0	4,172 2/	0	0

Prior to FY 1983, only part of the costs of administrative management and support services provided to Working Capital Fund activities were covered by reimbursements to the Departmental Administration appropriation. During FY 1982 recommendations to consolidate funding for all administrative support services in a single reimbursement were implemented as part of a key recommendation of a special task force set up by the to review the management and operation of the Departmental Working Capital Fund. Therefore, the costs for these support services are adjusted to a comparable basis.

1/ In FY 1979, this was "Regulatory Hearings and Decisions" and shown under the Office of the Secretary Appropriation.

2/ OIRM was financed by adjusting appropriations for all USDA agencies. It does not represent "new" money.

TABLE OF ADMINISTRATIVE MANAGEMENT AND SUPPORT SERVICE FEES TO THE WORKING CAPITAL FUND

Fiscal Year	1979	1983
Management Support Fee	$2,759	$3,547
Index (FY 1979 = 100)	100.00	128.56
Comparison Indices (FY 1979 = 100)		
Government GS Pay	100.00	127.24
NonPersonnel Costs	100.00	134.42

By reference to the comparison indicies of Federal Government costs over this period included above, the increase for these services appears to be reasonable and to reflect an overall reduction in the real costs of services.

Question: For the past two years the Departmental staff has not submitted requested materials for the ADP Explanatory Notes. Why was this data not furnished? Why couldn't the data be prepared in time for inclusion in the Department-wide submission, especially since the Department's ADP submission was not made until about one month after submissions of the President's budget? How can you develop data to document and justify large appropriations for expansion of ADP facilities if you are not able to prepare routine annual data for submission as a part of the budget materials presented to the Congress?

Answer: Departmental Administration was not initially included in the ADP Explanatory Notes because of delays in coordinating, preparing, and reviewing materials collected from disparate sources and combined into a single report. We are in the process of correcting these problems, so that next year's submission will be completed on time. In addition, we plan to keep you informed of our plans and progress in the information technology area by providing information presentations to the Congress throughout the year. The Departmental Administration submission for FY 1985 has been prepared and has already been provided to you separately from the ADP Notes.

OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

STATEMENT OF THOMAS O. KAY, DEPUTY ASSISTANT SECRETARY

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to present the fiscal year 1985 budget request for the Office of Governmental and Public Affairs.

This Office is the communication core of the U.S. Department of Agriculture. It provides direction, leadership, and balance in the development and delivery of information to farmers and consumers; maintains liaison with the Congress and the White House on legislative matters of concern to the Department and the public; and coordinates all programs involving intra and intergovernmental affairs with State and local officials. It is essential that this communication be continued and that the efforts of this Office are efficient, effective, and responsive.

The fiscal year 1985 budget request for this Office is $7,691,000, a net increase of $225,000 over the current estimate for fiscal year 1984. This is an increase of 2.9 percent. It will allow us to keep our Office operating efficiently. Our ability to meet program demands without this additional funding would be severely restrained and productivity would fall below the fiscal year 1984 level. This net increase consists of $114,000 for pay cost increases that were absorbed in fiscal year 1984, $125,000 operating cost increases, and a decrease of $14,000 associated with a phased reduction of positions in grades GS/GM-11-15. The cost increases are in several areas which include printing, communications, equipment, supplies and materials.

Over the past decade, the cost of carrying out our program responsibilities has increased rapidly. During the same period, we have absorbed the majority of growth in operating costs without reducing output in continuing programs. In addition, OGPA absorbed the full pay cost increase in fiscal year 1982 and 50 percent in fiscal year 1983. Further absorptions of non-salary cost increases would have a severe impact on our ability to meet program demands.

This concludes my statement, Mr. Chairman. I will be happy to respond to any questions.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

SATELLITE DISTRIBUTION OF RADIO NEWS AND FEATURES MATERIALS

Question: A pilot project was initiated to test the economics and feasibility of distributing USDA radio news and feature material by satellite. When was this project initiated?

Answer: This pilot project was initiated on September 6, 1983.

Question: When will this project be completed?

Answer: The pilot project was completed on December 2, 1983.

Question: What is the anticipated cost of this pilot project?

Answer: The total cost of the project was $6,893.

Question: How soon will you be able to determine the value of this resource?

Answer: A final evaluation was conducted immediately upon completion of the project. It was determined that slightly over 75 percent of the 126 stations involved in the project regularly accessed the afternoon 10-minute offering of USDA news items and 60 percent regularly accessed the morning 20-minute offering of news features, featurettes and documentaries. It was also determined that satellite distribution delivers a higher quality product compared to distribution via audio tape. Many stations also commented favorably on the immediacy of receiving the feature materials via satellite rather than via mail as in the case of tape distribution.

GOVERNMENTAL AND PUBLIC AFFAIRS
VERSUS
HUMAN NUTRITION INFORMATION SERVICE

Question: Please describe the relationship between your public affairs activities and the programs of the Human Nutrition Information Service.

Answer: The News Division handles news releases, background statements and related current information from HNIS as it does for any other agency within USDA. When in-depth information concerning HNIS is requested by the media, News Division personnel either obtain the information directly from HNIS or refer the inquiry directly to an HNIS official. The Special Programs Division works closely with HNIS staff members when special information or education efforts are underway wherein HNIS becomes the source or one of the sources for the information used. The Radio & Television Division uses information from HNIS and on occasion some of the HNIS personnel as resource personalities on radio or television programs. The Publishing Division handles the editorial review and printing arrangements for any HNIS publications the same as for other USDA agencies.

PUBLICATIONS

Question: Your notes indicate you discontinued some 76 publications in 1983 for a savings of $240,000. Are additional publications being discontinued in 1984? At what savings?

Answer: Thirty-six publications are being discontinued at a cost savings of $72,000.

Question: How would you characterize the public response to the decrease in information available in 1982, 1983, and 1984 through the distribution of free publications through the Consumer Information Center?

Answer: According to the Consumer Information Center, the public initially responded negatively to the decrease of free publications through its program. The initial negative response was exhibited through unsolicited public complaints, through numerous organizations that testified before Congressional committees, through the media, and through continuing demand for the free information. That initial criticism has now subsided considerably.

Question: If a person writes to the Department requesting a publication, how do you handle the request?

Answer: The Department distributes publications to the public on a first come-first served basis for as long as the free supply lasts. When the free supply of a publication is exhausted, we refer the requests to the Superintendent of Documents or to the National Technical Information Service if the publications are sold by those agencies. We also inform the requestor that our National Agricultural Library can provide photocopies for a fee. If the publication is in the Depository Library system, we identify the library in the vicinity of the person requesting the publication.

Question: How many requests for publications does the Department receive in a year?

Answer: The Department does not keep comprehensive records on all requests received for publications. However, we estimate that USDA receives about one and one-half million such requests.

DEPARTMENTAL DIRECTIVES

Question: Please provide for the record a copy of the revised Departmental directives you published last year.

Answer: The Office of Intergovernmental Affairs issued four (4) Departmental directives in 1983: Natural Disaster Assistance Available From the U.S. Department of Agriculture, Program Aid Number 1328, August 1983; Departmental Emergency Preparedness Responsibilities, Number 1800-1, September 14, 1983; USDA National Emergency Preparedness Instructions, DM 1800-1, September 27, 1983; and Native American Working Group, Number 1312-1, December 6, 1983. A copy of these materials is attached for the record.

NATURAL DISASTER ASSISTANCE AVAILABLE FROM THE U.S. DEPARTMENT OF AGRICULTURE

Types of Assistance Available

The U.S. Department of Agriculture (USDA) renders many types of assistance in emergencies caused by natural disasters. The nature and scope of the disaster determine which types of assistance are available and which will be authorized. The USDA disaster programs are coordinated by the Director, Intergovernmental Affairs, Governmental and Public Affairs. Depending on the nature and severity of a disaster, USDA is prepared to do the following:

- Provide emergency food assistance.
- Assist in providing livestock feed.
- Provide loans and cost-share financing to assist farmers and other rural residents in rehabilitation efforts.
- Assist rural electric and telephone cooperatives to repair or replace damaged lines.
- Make indemnity payments to farmers for crops covered by insurance through the Federal Crop Insurance Corporation (FCIC).
- Provide technical information and assistance to farmers and others in developing disaster plans and in returning to normal after a disaster has occurred.
- Control plant and livestock diseases and insect infestations.
- Provide fire protection in and management of National Forests and assist in controlling fires that threaten to spread from nearby lands onto National Forests.
- Provide assistance through regular USDA programs adapted as necessary to disaster situations.

Where to Apply For Assistance

USDA has offices to serve every county. In many counties, all USDA agencies are at a central location. Except for the following types of assistance, any local USDA agency office can either take the application for approved programs or direct the person to the nearest office of the USDA agency providing the service:

- For fire fighting aid on private lands, contact the nearest Federal or State forestry office or local fire department. If they cannot handle the fire, they will request additional assistance.
- For assistance for Indian tribes, contact the Department of Interior, Bureau of Indian Affairs.
- For assistance to electric and telephone borrowers, contact the Rural Electrification Administration (REA) in Washington, D.C.
- For certification of eligibility for food coupons, disaster victims who are able to prepare foods and serve tnen as a family unit should apply at the local city or county welfare office, or to an authorized disaster assistance center, if established.

Assistance Available Even Without a Declaration of a Major Disaster by the President.

The Agricultural Stabilization and Conservation Service (ASCS) can provide assistance as follows:

- **Agriculture Conservation Program (ACP).** The ACP may be used to replace some conservation structures destroyed by natural disasters on eligible lands. ACP stresses enduring conservation practices and results.
- **Emergency Conservation Program (ECP).** The ECP provides emergency funds for sharing with farmers and ranchers the cost of rehabilitating farmland damaged by natural disasters. Costs are also shared for carrying out emergency water conservation measures during periods of severe drought.
- **Adjustments in Regular Programs.** Some regular programs include specific procedures for natural disaster aid such as payments to wheat, feed grain, rice, and upland cotton growers when planting is prevented or yields are prevented or yields are abnormally low and Federal crop insurance is not available.
- **Grazing and Haying.** Seasonal grazing or haying may be authorized on conservation-use acreage retired from the production of annual program crops (wheat, feed grains, rice, and upland cotton).
- **Indian Acute Distress Donation Program.** Commodity Credit Corporation (CCC)-owned feed grains may be donated to Indian tribes for livestock feeding under the Indian Acute Distress Donation Program following a decision by the Administrator, ASCS that the chronic acute distress for the needy members of an Indian tribe has been materially increased due to severe drought, flood, hurricane, blizzard, or other catastrophe. Distribution of feed to the tribe is arranged by the Department of the Interior, Bureau of Indian Affairs.
- **Migratory Wildfowl Feeding.** CCC-owned grain may be donated to the Department of the Interior for feeding migratory waterfowl when threatened with starvation or for prevention of crop damage, upon a finding by the Secretary of the Interior that an emergency exists.
- **Resident Wildlife Feeding.** CCC-owned grain may be also be donated to State agencies for feeding resident wildlife threatened with serious damage or loss from starvation, upon the requests of appropriate State agencies and authorization by the Secretary of the Interior.

Animal and Plant Health Inspection Service (APHIS) is prepared to provide technical advice and assistance as follows:

- **Animal Diseases.** Veterinarians and livestock inspectors may assist in emergency measures to prevent, control, and eradicate certain domestic livestock and insect diseases.
- **Plant Pests.** Plant pathologists and entomologists may assist in emergency measures to control, eradicate, and prevent the spread of certain plant diseases and insect pests.

State Cooperative Extension Service (CES) supports all USDA natural disaster missions through the land-grant universities by providing:

- **Information and educational material** to farmers, ranchers, and others on what they can do to protect themselves and their property against the hazards associated with disasters.
- **Advice** on cleanup of damaged property, santitation precautions, insect control, food preparation in an emergency, recovery actions on damaged farms, and renovation of damaged equipment and property.

Farmers Home Administration (FmHA) may make emergency loans following a natural disaster. The President or Secretary of Agriculture may implement the emergency loan program by naming a county a "disaster area." In situations involving severe physical losses, the FmHA Administrator may also name a county a "disaster area" to make disaster loans available.

Who May Receive Loans? Eligible farmers, ranchers, and aquaculture operators may receive emergency loans.

Emergency Loans cover actual losses; and may be used;

(1) To repair, restore, or replace damaged or destroyed farm property and supplies.
(2) For expenses incurred for crop production.
(3) To pay farm debts owed to another creditor.

Loan Eligibility of applications will be considered without regard to race, color, creed, sex, marital status, or national origin from anyone who:

- Has suffered property damage or severe production losses from a natural disaster.
- Is a U.S. citizen.
- Is an established farm, ranch, or aquaculture operator (either tenant or owner-operator) who manages the enterprise.
- Is of good character, and with the industry, ability, and experience to carry out the proposed farming operations.

Loans are Limited to 80 percent of the amount of actual loss or $500,000, whichever is less, for each disaster.

Interest Rates vary as follows:

- For those *unable* to obtain the necessary credit from conventional sources, the rate is 8 percent.
- For those who are *able* to obtain credit from conventional sources, the rates are established periodically by the Secretary of Agriculture based on the rate that conventional lenders are charging for similar loans.

Loan Repayment Terms specify that:

(1) Repayment must be made as rapidly as is feasible in annual installments consistent with the applicant's ability to pay. Repayment varies according to the purpose of the loan and the type of collateral available to secure the loan. Loans for:

- Actual losses to crops, livestock, supplies, and equipment may be scheduled for a period normally not to exceed 7 years. These loans may be rescheduled for an additional 7 years. Under some conditions, a longer repayment period may be authorized, but it may not exceed 20 years. Generally, real estate will be needed as security when more than 7 years is authorized.
- Actual losses to physical property, such as farm dwellings and structures, will normally be scheduled for repayment within 30 years or less. Under some conditions, a longer repayment period may be authorized up to 40 years.

(2) All emergency loans will be reviewed 2 years after they are made and every 2 years thereafter to determine whether borrowers are able to return to regular sources of credit. Borrowers are required to refinance if it is determined that other suitable credit is available to them, even though their emergency loans have not fully matured.

As Security liens on crops, livestock farm machinery, or farm real estate cover the amount of the loan. If the usual security cannot be provided because of the disaster, loans may be made on the collateral that is available, even if part of it has depreciated value because of the disaster, and on the basis of the applicant's repayment ability.

The Federal Crop Insurance Corporation (FCIC) offers crop insurance for 28 crops in over 3,000 counties in 49 states. Under the Federal Crop Insurance Act of 1980, coverage was made available for all counties formerly covered by the Agricultural Stabilization and Conservation Services's (ASCS) low-yield disaster payments. It covers unavoidable losses due to any adverse weather conditions including drought, excessive rain, hail, wind, hurricanes, tornadoes, and lightning. It also covers unavoidable losses due to insect infestation, plant disease, floods, fires, and earthquakes.

Farmers Can Select Coverage. The flexibility of crop insurance policies offer choices of guaranteed yield amounts and prices to be paid on each bushel or pound of loss. The cost of insurance, which is a fully deductible business expense, depends on the level of protection selected. Farmers can insure their crops for 50, 65, or 75 percent of yield. If their harvest is less than the insured level because of natural conditions, the insurance pays the difference. Farmers select their own rate payment by electing one of the three levels of payment when they buy the insurance. Growers get special low-cost premium rates because the Government pays 30 percent of the premium cost up to the 65 percent coverage level.

What about Yield Differences? Crop insurance can be more specifically tailored to an individual farmer's needs by the Individual Yield Coverage (IYC). The IYC allows for the individual's verifiable production history to be figured into the policy. Changes in the 1983 IYC program also give greater credit for higher yields in nonverifiable years, thus making it more attractive for productive farmers to elect crop insurance coverage.

Rates. Premium rates vary throughout the Nation and even within counties reflecting differences in productivity and the risk of loss.

Food and Nutrition Service (FNS)

Under PL 93-288 and implementing Executive Order 11795, the responsibility for distribution of food in a natural disaster area is assigned to the Federal Emergency Management Agency (FEMA). However, the Secretary of Agriculture is authorized to make USDA-donated foods available for group feeding or household distribution when a disaster occurs. He distributes emergency food stamps to victims of disasters.

- USDA food distribution regulations provide that foods donated for school feeding and other FNS programs may be used by relief organizations for mass feeding in emergency or disaster situations. USDA-donated foods may also be used for emergency distribution to households in food stamp areas affected by disasters when the Secretary of Agriculture determines that commercial channels of food distribution have been disrupted.
- In disaster areas the Secretary of Agriculture also is authorized to establish temporary emergency standards of eligibility for food stamp assistance to victims for the duration of the emergency if:

(1) Requested by the State agency responsible for the administration of federally aided public assistance programs, and

(2) As the result of a disaster, income or resources are reduced or inaccessible, and households need food assistance which cannot be met by the regular Food Stamp Program procedures.

Forest Service (FS)

- Provides fire protection in national forests, and assists in control of fires that threaten to spread from nearby lands onto national forests.
- Cooperates with State foresters by providing financial and technical assistance in rural and wildland fire prevention and suppression.
- Provides technical and financial assistance to State organizations for preventing, detecting, and evaluating forest insect and disease outbreaks on land of all ownership.
- Installs emergency measures for runoff retardation and soil erosion prevention to safeguard life and property of watershed lands suddenly damaged by fire, flood, and other natural disasters.
- Furnishes personnel and equipment for search and rescue work and other emergency measures on national forests and on other lands in cooperation with State forestry agencies.

Office of Transportation (OT) can assist in obtaining railroad freight rate reductions to facilitate the movement of:

- Feed supplies to areas affected by natural disasters, or
- Livestock from such areas to other areas where adequate pasture or forage exists.

The Rural Electrification Administration (REA) assists REA-financed electric and telephone cooperatives and companies with additional loans and technical assistance in obtaining resources for restoration of service after a natural disaster.

The Soil Conservation Service (SCS) provides technical and financial assistance for runoff retardation and soil erosion prevention as needed to reduce hazards to life and property from floods, drought, and the products of erosion on any watershed impaired by a natural disaster. SCS provides technical assistance for:

- Rehabilitation of land and conservation systems for which ASCS provides cost-sharing.
- Emergency protection against high water and rehabilitation of rural lands damaged by natural disaster.

Provides information and materials (maps and reports) on watershed projects, river basin studies, and Resource Conservation and Development projects. Makes available agency equipment for emergency use.

Additional Assistance Available

A Presidential major disaster or emergency declaration under the Disaster Relief Act of 1974 makes possible the following additional assistance:

Livestock Feed

(1) Assistance may be offered through the donation of CCC-owned feed grain under the:

- Crash Feed Grain Donation Program. Eligible livestock are those which are commingled, stranded, and unidentified as to owner or owned by one who is temporarily unable to arrange for feed or pasture. This program lasts only until owners are able to resume care of their livestock.
- Herd Preservation Feed Grain Donation Program. Eligible owners must have had their livestock operation so damaged by the disaster that they do not have sufficient remaining cash or credit with which to purchase necessary feed grains at present market prices to maintain their livestock.

(2) The Federal Emergency Management Agency (FEMA) may:

- Pay additional cost of feed ingredients and services over and above the donated CCC-owned feed grains, or
- Authorize the purchase of feed locally if CCC-owned feed grains are not readily available.

Fire Fighting

The Disaster Relief Act of 1974 authorizes the President to provide assistance, including grants, to any State for putting out any fire on publicly or privately owned forest or grassland which may cause destruction that would constitute a major disaster. The USDA Forest Service, or the Bureau of Land Management of the Department of the Interior, provides technical assistance to the Federal Emergency Management Agency (FEMA) in the administration of this provision.

Debris Clearance

(1) The Disaster Relief Act of 1974 authorizes the President to use Federal departments, agencies, and instrumentalities to:

- Remove debris and wreckage resulting from a major disaster from publicly or privately owned lands and waters, or
- Make grants to any State or local government for such debris removal.

(2) Policies, procedures, and methods of removal will be determined by the Federal Emergency Management Agency.

FmHA Emergency Loans

When the President makes a major disaster or emergency declaration, the FmHA emergency loans are automatically made available to eligible producers in counties named by the Federal Emergency Management Agency.

DEPARTMENTAL EMERGENCY PREPAREDNESS RESPONSIBILITIES

1 PURPOSE

This regulation outlines the defense emergency and natural disaster responsibilities of the Department of Agriculture, the organization for carrying them out at national, regional, State, and local levels, and issuance of the Federal Employee Emergency Identification Card.

2 CANCELLATION

Title 1, Chapter 4, Subject: Crisis Responsibilities, January 8, 1979, of the Administrative Regulations, is hereby superseded.

3 ABBREVIATIONS

AMS	Agricultural Marketing Service
ARS	Agricultural Research Service
ASCS	Agricultural Stabilization and Conservation Service
APHIS	Animal and Plant Health Inspection Service
CCC	Commodity Credit Corporation
CSRS	Cooperative State Research Service
ERS	Economic Research Service
ES	Extension Service
FAC	Food and Agriculture Council
FmHA	Farmers Home Administration
FCIC	Federal Crop Insurance Corporation
FEMA	Federal Emergency Management Agency
FNS	Food and Nutrition Service
FSIS	Food Safety and Inspection Service
FAS	Foreign Agricultural Service
FS	Forest Service
GPA	Governmental and Public Affairs
HNIS	Human Nutrition Information Service
IA	Intergovernmental Affairs
NFAC	National Food and Agriculture Council
OB&PA	Office of Budget and Program Analysis
OE	Office of Energy
OFM	Office of Finance and Management
OGC	Office of the General Counsel
OIG	Office of the Inspector General
OO	Office of Operations
OP	Office of Personnel
OT	Office of Transportation
RES	Regional Emergency Staff (USDA)
REA	Rural Electrification Administration
SCS	Soil Conservation Service
SRS	Statistical Reporting Service
USDA	United States Department of Agriculture

4 DEFINITIONS

a Category A Agency. Those with functions that must be carried out in the immediate preattack, transattack, and immediate postattack period - APHIS, ARS, ASCS, FNS, FS, FSIS, GPA, UGC, OO, SCS, and SRS.

b Category B Agency. Those with functions that are essential to the postattack reconstruction of the Nation - AMS, CSRS, ERS, ES, FAS, FmHA, OP, and REA.

c Category C Agency. Any agency other than a Category A or Category B.

d Local Food and Agriculture Councils. A local Food and Agriculture Council is that Food and Agriculture Council established in a political subdivision of a State, identified as a county or parish. In Alaska, Hawaii, and Puerto Rico, the local Food and Agriculture Council shall be determined by the ASCS administrative areas.

5 POLICY

Each agency is responsible for planning, staffing, training, funding, and operating its emergency programs according to its assignment. Plans shall be in accordance with the USDA emergency preparedness programs.

6 RESPONSIBILITIES

Departmental responsibilities, as assigned to the agencies, are to:

a Develop standby defense emergency programs.

b Activate and administer these programs when authorized by the President following a proclamation of a national emergency by the Congress or the President.

c Develop plans to respond to any type of natural disaster emergency.

7 USDA DEFENSE AND NATURAL DISASTER ASSIGNMENTS

a Source. The Defense Production Act of 1950, as amended (50 U.S.C. App. 2061 et seq.); Federal Civil Defense Act of 1950, as amended (50 U.S.C. App. 2251 et seq.); Executive Order 11490, as amended; Flood Control Act of 1950; Disaster Relief Act of 1974, as amended; the Commodity Credit Corporation Charter Act; and the Strategic and Critical Materials Stockpiling Act (50 U.S.C. 98 f) are some of the authorities under which USDA can prepare for and respond to a defense or natural disaster situation.

b Coverage. The Secretary of Agriculture is responsible for national leadership and direction of emergency programs for:

(1) Defense. USDA may become involved in preattack activities as well as transattack and postattack pertaining to:

(a) Food resources, seed, livestock and poultry feed, fertilizer, farm equipment, and food resource facilities.

(b) Lands under the jurisdiction of the Secretary of Agriculture.

- (c) Rural fire control.
- (d) Defense against hazardous agents (nuclear, biological, and chemical), and effects pertaining to agricultural and forestry activities.
- (e) Rural information and education.
- (f) Water to be used in agricultural production and food processing.

(2) Natural Disaster. When appropriate, USDA is prepared to:

- (a) Provide emergency food coupon assistance in disaster areas.
- (b) Donate commodities to disaster relief agencies for group feeding and emergency household distribution in areas served by the food stamp program.
- (c) Assist in providing livestock feed.
- (d) Provide loans and cost-share financing to assist farmers and other rural residents in rehabilitation efforts and to assist rural electric and telephone cooperatives and companies to repair or replace damaged lines.
- (e) Make payments to farmers for crops covered by insurance through the FCIC.
- (f) Assist farmers and others develop disaster recovery plans.
- (g) Control plant and livestock diseases and insect infestations.
- (h) Provide fire protection on or adjacent to National Forests and assist in the suppression of fires in other rural areas.
- (i) Provide disaster assistance through regular USDA programs.
- (j) Assure the purity and wholesomeness of meat, poultry, eggs and egg products.
- (k) Procure food for emergency use.

c Organization. Responses are handled by key personnel in a nationwide emergency organization formed to utilize the Department's peacetime capability for emergency tasks (Appendix A).

(1) National. The Director, Intergovernmental Affairs (IA), Office of Governmental and Public Affairs, directs and coordinates USDA emergency programs. IA serves as the central contact within the Department and works closely with NFAC and the headquarters offices of other departments and agencies. Each USDA agency with a responsibility shall designate an Emergency Program Contact to work with IA and advise the agency leadership on readiness matters.

(2) Regional. The Regional Emergency Staff (RES) in each of the ten Standard Federal Regions assists in carrying out USDA defense responsibilties at the regional level. The RES chairperson may be called upon to coordinate USDA response to natural disasters, although the staff shall be activated for defense purposes only. There are six Category A agencies on the RES. When the staff is activated, agency personnel on the RES operate as Department, rather than agency personnel.

(3) State. Coordination of USDA emergency programs at the State level is handled by the USDA State FAC. Members are representatives of the USDA agencies having major responsibilities in the field. There is a FAC in every State and one each for Puerto Rico and the Virgin Islands.

(4) Local. Coordination of USDA emergency programs at the local level is handled by the USDA Local FAC. Membership consists of a representative of each USDA agency having available personnel at the local level.

8 ASSISTANT SECRETARY, GOVERNMENTAL AND PUBLIC AFFAIRS

Direct and coordinate the Department's defense emergency, natural disaster, and the radiological emergency preparedness response programs.

a Intergovernmental Affairs shall:

(1) Direct, coordinate, provide assistance, and support to all emergency programs of USDA.

(2) Supervise and direct the USDA Regional Emergency Staffs.

(3) Provide policy guidance to USDA agencies in carrying out their emergency assignments.

(4) Provide liaison with executive departments and agencies and the Congress on policy matters.

(5) Represent USDA on international defense organizations, such as NATO and its suborganizations.

(6) Provide USDA-wide administrative readiness for continuity of essential functions.

(7) Maintain an overview of emergency relocation facilities and assure that resources are in a constant state of readiness.

(8) Establish and maintain liaison with the Federal Emergency Management Agency (FEMA).

b Office of Information shall:

(1) Direct and advise proper use of the information media.

(2) Prepare or arrange for the development of informational materials.

(3) Obtain any additional materials prepared by other agencies.

9 AGENCY RESPONSIBILITIES AND REQUIREMENTS

Preparedness functions are assigned mainly on the basis of related current responsibilities. Only those agencies with specific assignments are included in this document (Appendix B).

a The head of each agency with an assignment shall:

(1) Coordinate plans and programs with agencies having related responsibilities through the Director, IA.

(2) Arrange for training of personnel.

(3) Issue necessary emergency operating instructions to headquarters and field offices.

(4) Develop an adequate emergency records system to support defense assignments at national and field levels.

(5) Develop and prepare reports of defense assignments as needed.

(6) Designate an Emergency Program Contact and provide name, title, telephone, and room number to the Director, IA. Each contact is responsible for:

(a) Serving as liaison between the agency and the Director, IA, on matters relating to emergency preparedness.

(b) Advising agency head on all readiness matters.

b Each Category A agency for defense purposes shall:

(1) Establish a line of succession and include one or more field officials.

(2) Obtain security clearance for each successor.

(3) Document line of succession.

(4) Clear line of succession with OGC.

(5) Preposition authenticated copies of line of succession in agency records at headquarters relocation sites.

(6) File authenticated copy of line of succession with the Director, IA.

c Category B agencies for defense purposes shall depend on the regular line of succession.

d Category C agencies shall respond to special requests in support of defense effort. Such agencies, in event of attack, would defer reconstitution until directed by proper authority.

10 DEPUTY SECRETARY

Office of Budget and Program Analysis. Provide policy guidance on budget matters covering all phases of assignments made to the Secretary. Include procedures for budgeting and funding preemergency and emergency activities, including both administrative and project costs.

11 UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

Administer functions relating to agricultural production; food processing, storage, and distribution; water to be used in agricultural production and food processing; distribution of farm equipment, livestock and poultry feed, seed, and fertilizer; rehabilitation and use of food, agricultural and related agribusiness facilities; CCC resources; foreign agricultural intelligence; and other foreign agricultural matters.

a Agricultural Stabilization and Conservation Service

(1) Develop emergency plans and controls for:

(a) Agricultural production, including feed, seed, domestic distribtuion of farm equipment and fertilizer, grain storage, and distribution.

(b) Food processing, storage, and distribution through the wholesale level.

(2) Develop plans for management, control, and allocation of water to used for agricultural production and food processing in consonance with overall plans of the United States Army, Corps of Engineers. (Coordinate plans with responsibilities of FS and SCS for Water Control.)

(3) Analyze the capabilities of agriculture, food industry, and support industries to supply emergency food requirements.

(4) Assess effects of attack on assigned resources.

(5) Assist State and local governments develop emergency plans on food and agriculture. Provide guidance and information to agriculture and food industries in development of their emergency plans.

(6) Assist agriculture, the food industry, and related agribusiness to obtain materials, manpower, supplies, and services necessary for essential emergency operations.

(7) Facilitate the rehabilitation of food, agricultural, and related agribusiness facilities.

(8) Adjust regular programs when appropriate to provide natural disaster assistance.

(9) Implement emergency conservation measures and livestock feed programs when appropriate.

(10) As requested, assist the Director, IA, to:

(a) Consolidate claims for materials, manpower, equipment, supplies, and services to support defense program responsibilities of USDA.

(b) Coordinate activities relating to expansion of productive capacity, materials, and facilities under the Defense Production Act of 1950, as amended.

(c) Participate in interdepartmental defense preparedness meetings.

(d) Service USDA State and local FACs on emergency activities.

(e) Coordinate preemergency reporting.

b Commodity Credit Corporation

(1) Procure and manage emergency food supplies to assure their availability in an emergency.

(2) Make reimbursable disbursements to FmHA for emergency production loans when mail services or activities of the FmHA Finance Office or the Disbursing Office of the Treasury Department are disrupted.

(3) Guarantee or make emergency loans to continue agricultural activities for processing, storage, and distribution of food and other agricultural commodities, mixing and distribution of fertilizer, distribution of farm equipment, and other farm supplies.

(4) Guarantee payment to firms to provide a commodity under the jurisdiction of USDA or a related service.

(5) Barter surplus agricultural commodities for strategic and critical materials.

c Foreign Agricultural Service

(1) Acquire and analyze information related to food and agricultural commodities in foreign countries.

(2) Assemble and prepare analyses, in cooperation with the Department of State, of food availabilities and requirements for allies and make recommendations regarding allocations.

(3) Assemble and present Canadian food availabilities and requirements, in cooperation with the Canadian government, whenever food allocations are made.

(4) Assist in carrying out any foreign trade controls that may be assigned.

(5) Support the activities of international defense organizations.

12 UNDER SECRETARY, SMALL COMMUNITY AND RURAL DEVELOPMENT

Administer rural credit and financial assistance programs.

a Farmers Home Administration

(1) Supply emergency credit to farmers, ranchers, and aquaculture operators in support of agricultural production program.

(2) Assist with technical support on guarantees, loans, and other credit arrangements of all USDA emergency programs, except agricultural production.

(3) Furnish technical assistance, support, and guidance for comprehensive and functional community and economic development activities in rural areas to meet emergency conditions.

b Federal Crop Insurance Corporation. Make payments to farmers for crops covered by insurance.

c Office of Rural Development Policy. Extend expertise regarding rural conditions, trends, needs, and capabilities in the following areas: overall policy analysis; transportation; economic development; energy; manpower; health; aging; land use and natural resources; intergovernmental coordination; and capacity building.

d Rural Electrification Administration.

(1) Provide emergency credit to REA-financed rural electrification and telephone systems.

(2) Furnish technical assistance and advice on restoration of electric power and telephone service under emergency conditions, including facilities protection.

(a) Estimate electric power requirements and supply capabilities of REA-financed systems.

(b) Determine and support requirements for materials, manpower, equipment, supplies, and services needed by REA-financed systems to meet the requirements of their customers.

13 ASSISTANT SECRETARY, MARKETING AND INSPECTION SERVICES

Administer functions relating to protection of livestock, poultry, crops, and products thereof from diseases, pests, and hazardous agents (nuclear, biological, and chemical); utilization or disposal of livestock and poultry exposed to radiation; inspection for wholesomeness of meat and meat products, poultry and poultry products, eggs and egg products; and procurement of food and petitioning for reduced freight rates for the movement of feed and livestock following a natural disaster.

a Agricultural Marketing Service

(1) Inspect eggs and egg products for purity and wholesomeness.

(2) Procure food commodities.

(3) Assure the wholesomeness of agricultural products and commodities owned by the Commodity Credit Corporation.

(4) Develop specifications, write contracts, and perform acceptance activities of food.

(5) Grade and certify food commodities for quality.

b Animal and Plant Health Inspection Service

(1) Protect livestock, poultry, crops, and products thereof from diseases, pests, and chemicals introduced as agents of biological or chemical warfare. Assess damage to agriculture of any such introduction.

(2) Direct the utilization and disposal of livestock and poultry exposed to radiation.

(3) Establish the purity, safety, potency, and effectiveness of veterinary biologics in interstate commerce.

(4) Make necessary interstate inspection of imported animals and plants and their products and inspection at Ports of Entry.

(5) Determine and report requirements for equipment, chemicals, and other materials needed to support assigned programs.

(6) Cooperate with officials of the U. S. Customs Service and the Immigration and Naturalization Service to facilitate the clearance of returning noncombatant evacuees through Ports of Entry during repatriation activities.

(7) Conduct inspection and clearance procedures for returning noncombatant evacuees through Ports of Entry during repatriation activities.

c Food Safety and Inspection Service

(1) Inspect meat and meat products and poultry and poultry products in slaughtering and processing plants subject to continuous FSIS inspection to assure their purity and wholesomeness.

(2) Assist the Food and Drug Administration in the inspection of other food products.

(3) Develop plans and procedures for the USDA Radiological Emergency Preparedness Response Program.

d Office of Transportation. Assist in obtaining railroad freight rate reductions to facilitate the movement of:

(1) Feed supplies to areas affected by natural disasters, or

(2) Livestock from such areas to other areas where adequate pasture or forage exists.

14 ASSISTANT SECRETARY, ECONOMICS

Administer programs to estimate supplies of agricultural commodities and evaluate requirements thereof; coordinate damage assessment; maintain food and agricultural statistics; and coordinate energy programs.

a Economic Research Service

(1) Estimate supplies and evaluate requirements for agricultural commodities in cooperation with appropriate agencies of the Department.

(2) Determine the economics of production capacity and adjustment potentials for agricultural commodities.

(3) Analyze the economics and background data on needs for and substitution possibilities of domestic and foreign farm production inputs and marketing services.

(4) Recommend basic food allocations for major food claimants on the basis of estimates of supplies and requirements.

(5) Review economic stabilization proposals affecting food and agriculture and recommend a USDA position relative to economic stabilization and rationing.

b Office of Energy

(1) Develop strategy and policy for the use of agricultural commodities as emergency energy sources.

(2) Develop plans for the use of available energy supplies in an emergency.

(3) Analyze and evaluate existing and proposed policies and strategies for emergency energy supplies for agricultural and related industry uses.

c Statistical Reporting Service

(1) Obtain and supply needed agricultural statistics.

(2) Develop procedures for damage assessment and adapt available statistics to defense needs.

(3) Analyze and summarize USDA damage assessment data at the State level.

(4) Coordinate the national level assessment of effects of attack on resources for which USDA is responsible.

15 ASSISTANT SECRETARY, NATURAL RESOURCES AND ENVIRONMENT

Administer functions concerning agricultural lands, water (EXCEPT for agricultural production and food processing, which is assigned to the Under Secretary, International Affairs and Commodity Programs), National Forest System and other forests, forest products, and rural fire control.

a Forest Service

(1) Prevent and control fires in rural areas in cooperation with State and local governments and appropriate Federal agencies.

(2) Determine damage to National Forests and other forests resulting from an attack or natural disaster.

(3) Plan and implement, when necessary, emergency protection and utilization of National Forest timber, range, water (EXCEPT as noted under ASCS and SCS), and related resources.

(4) Plan and implement emergency production and utilization of timber and timber products in cooperation with other Federal agencies and State forestry organizations.

(5) Determine and report requirements for equipment, personnel, fuels, chemicals, and other materials needed for carrying out assigned activities.

(6) Conduct research in support of defense preparedness and emergency operations relating to management and utilization of forest resources and rural fire protection.

(7) Provide technical and financial assistance to State organizations for preventing, detecting, and evaluating forest insect and disease outbreaks on lands of all ownership.

(8) Install emergency measures for runoff retardation and soil erosion prevention on National Forests to safeguard life and property on and downstream from watershed lands suddenly damaged by fire, flood, and other disasters.

(9) Furnish personnel and equipment for search and rescue work and other emergency measures on National Forests and on other lands where a temporary lead role will reduce suffering or loss of life.

(10) Determine which Forest Service facilities, including access to sanitation and water supply, are suitable for emergency housing or relocation of evacuees as well as rest and relaxation for military and civilian personnel.

b Soil Conservation Service

(1) Provide technical assistance to individuals, communities, and units of government relative to:

(a) Use of land for agricultural production.

(b) Application or restoration of conservation practices or measures necessary to control or reduce erosion and runoff.

(c) Use, conservation, disposal, and control of agricultural water in rural areas (EXCEPT as noted under ASCS and FS), including:

1 Water supply forecasting.

2 Emergency flood rehabilitation.

3 Protection for highways and defense installations.

(d) Treatment of soils to reduce radiological or other contamination, including:

1 Identification of crops suitable to be grown on contaminated lands.

2 Harvesting of growing crops.

3 Use of crops stored on farms.

4 Safety of livestock.

(2) Provide assistance in:

(a) Determining extent of damage to agricultural land and water.

(b) Estimating the types of emergency work needed.

(c) Locating heavy earth-moving equipment.

(3) Provide information and materials (maps and reports) on watershed projects, river basin studies, and resource conservation and development projects.

(4) Make agency equipment available for emergency use.

16 ASSISTANT SECRETARY, FOOD AND CONSUMER SERVICES

Administer the functions of distributing agricultural commodities and food stamps; and develop human nutrition information.

a Food and Nutrition Servce

(1) Authorize the distribution by a State agency of emergency food stamp allotments when FNS determines that the food needs of natural disaster victims cannot be met by normal program procedures.

(2) Authorize use of USDA-donated foods for emergency mass feeding during natural disasters and repatriation activities.

(3) Provide liaison with AMS and ASCS on procurement of food.

(4) Maintain current inventories of USDA-donated food held in State-owned or commercial warehouses.

b Human Nutrition Information Service. Develop and make available data on the nutrient composition of foods needed by Federal, State, and local agencies for use in emergency food and nutrition planning.

17 ASSISTANT SECRETARY, SCIENCE AND EDUCATION

Administer information and education services; conduct agricultural research; and coordinate research by cooperating State research institutions.

a Agricultural Research Service

(1) Perform agricultural production research in support of defense preparedness.

(2) Conduct market quality, transportation, and facilities research on matters related to departmental defense responsibilities.

(3) Develop guidance on the effects of radiation on agriculture.

(4) Provide guidance on the most efficient procedures for producing, processing, storing, and distributing agricultural commodities under postattack conditions.

(5) Coordinate the administrative functions on behalf of the Secretary for radiological safety within the Department.

b Cooperative State Research Service

(1) Coordinate use of land-grant and other cooperating State college and university services in carrying out defense and natural disaster responsibilities of the Department.

(2) Encourage research by these organizations to support the emergency program of the Department.

c Extension Service

(1) Administer information and education services covering:

(a) Emergency needs of farmers, other rural residents, and the food industry.

(b) Attack vulnerability of crops and livestock.

(c) Technology for emergency agricultural production.

(2) Maintain close working relationship with the news media.

(3) Provide guidance on the most efficient procedures to assure continuity and restoration of an agricultural technical information system under postattack conditions.

18 OFFICE OF THE GENERAL COUNSEL

Provide legal advice, review, and assistance on proposed preparedness, actions, and elements of proposed legislation relating to the emergency responsibilities of USDA.

19 ASSISTANT SECRETARY, ADMINISTRATION

Direct and coordinate Departmental administrative management and support services.

a Office of Finance and Management

(1) Provide policy guidance on fiscal matters related to assignments made to the Secretary. Include procedures to finance preemergency and emergency activities for administrative and project costs.

(2) Provide training for employees in safety and survival methods.

b Office of Administrative Systems. Maintain the payroll, administrative payments, financial accounting, and other administrative functions.

c Office of Information Resources Management

(1) Provide for emergency communications at Washington headquarters.

(2) Coordinate emergency relocation of computer operations.

d Office of Operations

(1) Provide staff support for:

(a) Space management matters related to emergency office space and fallout shelters.

(b) Supply and property management for emergency office space and fallout shelters.

(2) Provide transportation for USDA Emergency Executive Teams to their assigned emergency operating facilities.

e Office of Personnel. Provide leadership, policy, guidance, program formulation, and management direction related to personnel aspects of the Department's emergency program:

(1) Upon request by the Director, IA, assure that each executive team member has the proper identification and security clearance.

(2) Establish procedures for readiness and postattack actions covering recruitment, appointment, and staffing.

(3) In an emergency, advise employees, who do not have emergency assignments, of actions to take if their regular duty stations are not in operation.

20 OFFICE OF INSPECTOR GENERAL

Conduct and supervise internal audits and investigations. Assign audit and investigation personnel, as needed, to provide early monitoring of USDA emergency assistance initiatives in the areas of fraud, waste, abuse, and mismanagement. Provide audit and investigative service on a current basis to:

a Evaluate program effectiveness.

b As appropriate, recommend improvements in planning, development, and execution of the defense program.

c Provide physical security at USDA, Washington, D. C. complex.

d Insure specified laws or regulations are enforced.

21 USDA REGIONAL EMERGENCY STAFFS

a Members. APHIS, ASCS, FNS, FS, FSIS, and SRS have been identified as USDA agencies having essential uninterruptible defense functions at the regional level. Representatives from these agencies shall serve on the RES. The chairperson is selected from among the members by the Director, IA.

b Location. In each of the ten Standard Federal Regions.

c Defense responsibilities of chairperson:

(1) Preemergency

(a) Maintain liaison with all Federal agency representatives at the regional level.

(b) Represent USDA on any defense-related regional committees established by FEMA.

(2) Emergency

(a) Maintain liaison with other Federal agencies and exchange information on attack effects and availability of resources.

(b) Present food and agriculture claims at the regional level for materials, personnel, equipment, supplies, and services under the jurisdiction of other agencies.

(c) Provide direction for all USDA programs within the region when communications with national headquarters are cut off.

(d) Represent USDA on the Regional Emergency Resources Board.

(e) Channel defense information between field representatives and national headquarters of USDA.

d Natural disaster responsibilities of chairperson. Serve as the Secretary's liaison representative for coordinating USDA response when requested by the Director, IA.

e Responsibilities of staff members

(1) Assist chairperson in carrying out regional defense preemergency and emergency responsibilities.

(2) During a defense emergency, provide USDA support in Federal Regional Cities and at the alternate regional emergency operating facilities.

22 EMERGENCY FUNCTIONS AT THE STATE LEVEL

a Coverage. A FAC has been established in each State, Puerto Rico and the Virgin Islands. The FAC's responsibilities include coordination of the Department's defense and natural disaster activities at the State level.

b Membership. Representatives of those USDA agencies with specific emergency preparedness responsibilities at the State level. Other Federal and State government officials may be invited to attend FAC meetings at the discretion of the State FAC Chairperson.

c Responsibilities

(1) Coordinate preemergency preparation and postattack operations of USDA defense programs at the State level.

(2) Administer USDA natural disaster programs at the State level.

(3) Prepare and execute defense programs not assigned to any one agency.

(4) Provide emergency activity guidance to local FACs.

(5) Maintain liaison with State government officials on defense and natural disaster matters.

d Training and Records

(1) ASCS will provide the coordination for the required training in all FAC emergency preparedness program activities, to include both defense programs and natural disaster responsibilities. Agencies are responsible for training in their individual agency program responsibilities.

(2) ASCS will be responsible for the maintenance of emergency operating records at both the State office and the Emergency State office.

23 EMERGENCY FUNCTIONS AT THE LOCAL LEVEL

a Coverage. A local FAC has been established to cover every political subdivision of a State identified as a county or parish in the United States, Puerto Rico and the Virgin Islands.

b Membership. Representatives of those USDA agencies with specific emergency preparedness responsibilities at the local level. Other local government officials may be invited to attend local FAC meetings at the discretion of the local FAC Chairperson.

c Responsibilities

(1) Coordinate preemergency preparation and postattack operations of USDA defense programs at the local level.

(2) Administer USDA natural disaster programs at the local level.

(3) Prepare and execute defense programs not assigned to any one agency.

(4) Maintain liaison with local government officials on defense and natural disaster matters.

d Training and Records

(1) ASCS will provide the coordination for the required training in all local FAC emergency preparedness program activities, to include both defense programs and natural disaster responsibilities. Agencies are responsible for training in their individual agency program responsibilities.

(2) ASCS will be responsible for the maintenance of emergency operating records at their local office.

24 FEDERAL EMPLOYEE EMERGENCY IDENTIFICATION CARD

Each USDA agency authorized by the Director, IA, shall issue the FEMA Form 12-11, Federal Employee Emergency Identification Card, to each employee designated to perform essential duties during emergencies.

a Restrict issuance to:

(1) USDA headquarters personnel with assignments on Emergency Executive Teams.

(2) USDA RES members listed in Section 21.

(3) USDA FAC members and alternates at the State level.

(4) USDA FAC members and alternates at the local level.

(5) USDA personnel, as determined essential by agency heads.

b Each agency shall:

(1) Adhere strictly to the established issuance criteria prescribed in subparagraph a.

(2) Issue cards only to Federal employees designated to perform emergency duties.

(3) Obtain the FEMA Form 12-11 from the Director, IA.

(4) Stock and issue the identification cards as controlled items.

(5) Issue the identification card for a period not to exceed five years. Indicate the expiration date on the card.

(6) Dispatch all cards entered into the mail system as "CERTIFIED," "RETURN RECEIPT REQUESTED" mail.

(7) Maintain an accountability record of all blocks of cards received. Make an entry indicating ultimate disposiion of each card.

(8) Maintain a record indicating the card numbers, dates, and names of all personnel to whom the card has been issued.

(9) Review annually the assignments of all personnel to whom such cards have been issued, to determine if the holders continue to qualify under the prescribed issuance criteria.

(10) Complete entries, affix photographs, and laminate the cards in accordance with instructions outlined in Appendix C.

(11) Recall cards issued to personnel whose emergency assignments are withdrawn.

(12) Replace lost or mutilated cards, after obtaining a written

statement from the employee setting forth the circumstances surrounding the loss and the need for a replacement.

(13) Regain possession of and destroy all cards from personnel whose employment with the issuing agency has ceased.

(14) Not require a security clearance as a criteria for issuing cards.

(15) Not provide Reserve military and Coast Guard personnel under orders to report to an emergency duty post or installation with their respective units with an identification card.

(16) Maintain records and report, upon request, to the Director, IA, the following:

  (a) The number of cards issued and outstanding to Federal employees.

  (b) The card numbers and names of personnel to whom the cards have been issued.

  (c) The total number of cards recalled.

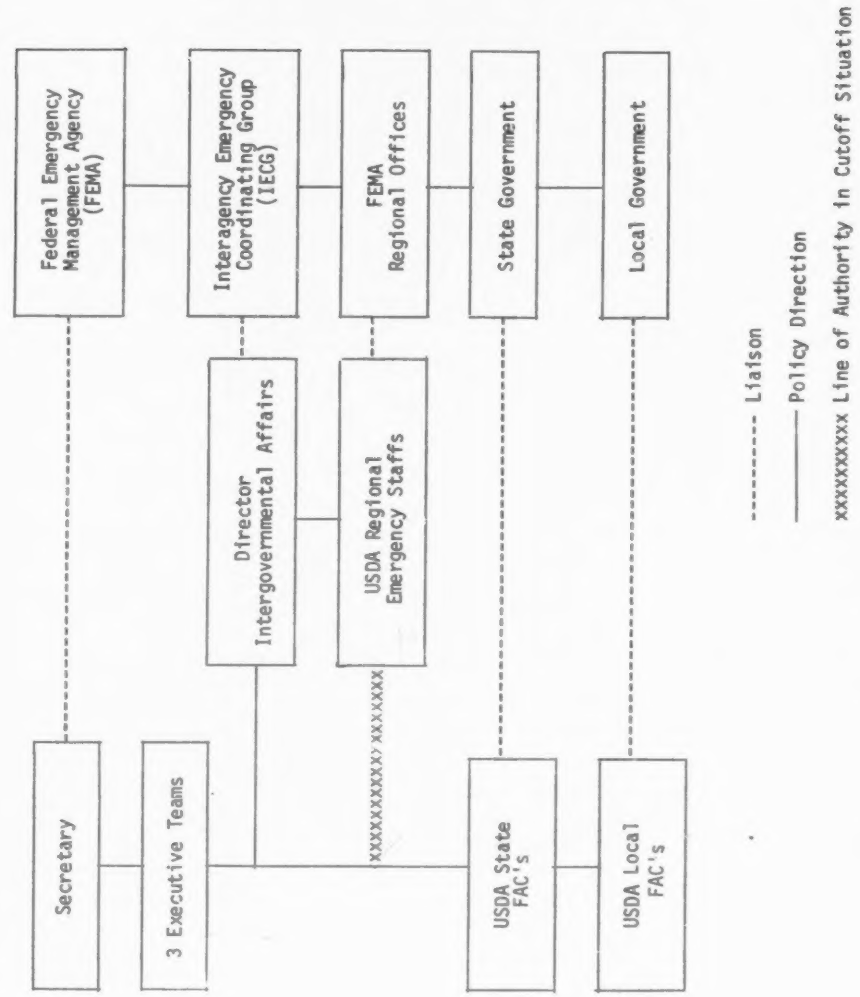
  (d) The total number of cards destroyed.

  (e) The total number of cards lost or unaccounted for.

  (f) The total number of cards available for issue.

(17) Provide the Director, IA, with copies of any instructions published to implement the provisions of this directive.

APPENDIX A



USDA EMERGENCY ORGANIZATION

Federal Emergency Management Agency (FEMA)
Interagency Emergency Coordinating Group (IECG)
FEMA Regional Offices
State Government
Local Government
Director Intergovernmental Affairs
USDA Regional Emergency Staffs
Secretary
3 Executive Teams
USDA State FAC's
USDA Local FAC's
xxxxxxxxxxxxxxxxxx
-------- Liaison
——— Policy Direction
xxxxxxxxxxx Line of Authority in Cutoff Situation

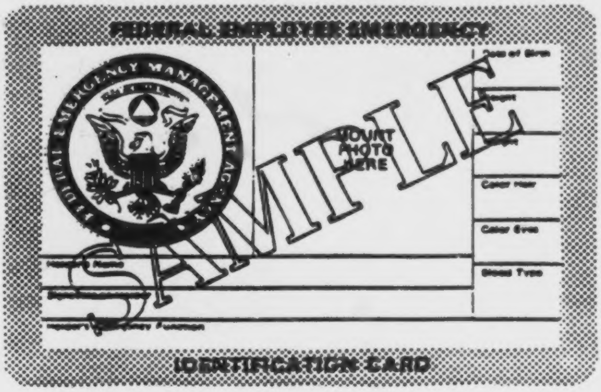
APPENDIX B

OVERVIEW OF USDA DEFENSE AND NATURAL DISASTER RESPONSIBILITIES

AGENCY	SEC	FOOD ASSISTANCE DOMESTIC & FOREIGN	EQUIP./MACHINERY & ENERGY	FIRE, TIMBER, RESCUE & RECREATION	HAZARDOUS AGENTS (N.B.C.)	WATER RESOURCES	RESEARCH, INFO. & EDUCATION	FOOD SAFETY & INSPECTION	FOOD PRODUCTION & TRANSPORTATION	MONEY & CREDIT ASSISTANCE	DAMAGE ASSESSMENT
AMS	13	X						X			
APHIS	13				X						X
ARS	17				X		X		X		
ASCS	11	X	X			X			X		X
CCC	11	X							X	X	
CSRS	17						X				
ERS	14						X				
ES	17						X				X
FAS	11	X									
FCIC	12									X	
FmHA	12									X	X
FNS	16	X									X
FS	15		X	X		X					X
FSIS	13	X			X			X			X
HNIS	16						X				
OE	14		X								
OT	13								X		
REA	12									X	X
SCS	15		X		X	X			X		X
SRS	14						X				X

APPENDIX C

FEMA Form 12-11, Federal Employee Emergency Identification Card



FEDERAL EMPLOYEE EMERGENCY

MOUNT PHOTO HERE

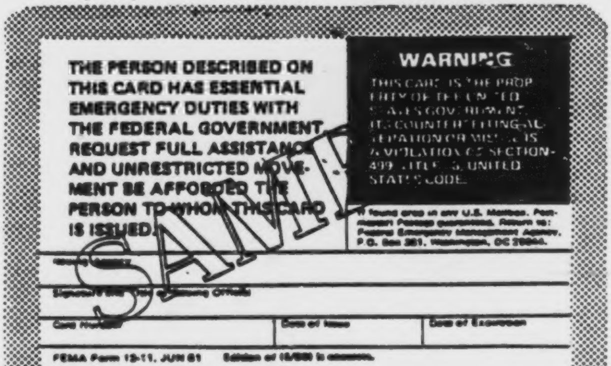
SAMPLE

IDENTIFICATION CARD

FRONT

PREPARATION OF CARD: Use typewriter. Make entries in all spaces. Follow examples outlined below:

Date of Birth: 11/14/30
Height: 5'9" (Enter inches, even when zero. Example: 6'0".)
Weight: 180
Color of Hair: Brown
Color of Eyes: Blue
Blood Type: 0 Neg
Holder's Name: Self-explanatory
Signature of Holder: Self-explanatory
Holder's Emergency Function: USDA Emergency Executive Team, USDA Regional Emergency Staff, USDA State Emergency Team, or USDA County Emergency Team, etc.



THE PERSON DESCRIBED ON THIS CARD HAS ESSENTIAL EMERGENCY DUTIES WITH THE FEDERAL GOVERNMENT. REQUEST FULL ASSISTANCE AND UNRESTRICTED MOVEMENT BE AFFORDED THE PERSON TO WHOM THIS CARD IS ISSUED.

WARNING

THIS CARD IS THE PROPERTY OF THE UNITED STATES GOVERNMENT. ITS COUNTERFEITING, ALTERATION OR MISUSE IS A VIOLATION OF SECTION 499, TITLE 18, UNITED STATES CODE.

SAMPLE

BACK

Issuing Agency: U.S. Department of Agriculture
Signature and Title of Issuing Official: Self-explanatory
Card Number: Self-explanatory
Date of Issue: 1/15/83
Date of Expiration: 1/14/88 (not to exceed 5 years)
Laminate the card (last step), use commercial means if necessary

PHOTOGRAPH: Black and white or color is acceptable

USDA NATIONAL EMERGENCY PREPAREDNESS INSTRUCTIONS

INTRODUCTION

The national security of the United States depends on the ability of the Federal Government to assure continuity at every level in a national emergency. Continuity of certain elements of government with essential, uninterruptible functions must be performed throughout the immediate preattack, transattack, and immediate postattack periods.

The United States Department of Agriculture, through the Office of the Secretary, and specific agencies within the Department, perform functions which have been classified as essential and uninterruptible. Personnel, designated by agency leaders, have been assigned to three emergency executive teams to carry out these functions at the national level during periods of a national emergency.

These National Emergency Preparedness Instructions provide information and guidance to the Office of the Secretary, agency leaders, and emergency executive team members. They describe the actions to be taken to assure that the Department's essential, uninterruptible functions are effectively performed during a national emergency.

PART 1 - AUTHORITY AND RESPONSIBILITIES

101 PURPOSE

The purpose is to provide continuity of Government through operation of programs which have been determined to be essential, uninterruptible functions that must be performed during the immediate preattack, transattack, and immediate postattack periods of a national emergency.

This handbook provides information and guidance to:

A The Office of the Secretary.

B Agency leaders.

C Emergency executive team members.

102 AUTHORITY

A Executive Order 11490, as amended. Directs the Secretary of Agriculture to prepare national emergency plans and develop preparedness programs covering:

1 Food resources, seed, livestock and poultry feed, fertilizer, farm equipment, and food resource facilities.

2 Lands under the jurisdiction of the Secretary of Agriculture.

3 Rural fire control.

4 Defense against hazardous agents (nuclear, biological, and chemical) and effects pertaining to agricultural and forestry activities.

5 Rural information and education.

B Federal Preparedness Circular (FPC) 11. This circular provides guidance to Federal departments and agencies on reducing vulnerability by:

1 Providing governmental authority and executive capability at both regular headquarters and at a suitable number of other geographic locations.

2 Establishing three categories of emergency organizations within Federal departments and agencies, as follows:

a Category A - Organizations requiring a capability for uninterruptible emergency operations during immediate preattack, transattack, and immediate postattack periods.

b Category B - Organizations with a requirement for postattack reconstitution as soon as conditions permit, unless otherwise directed by appropriate authority.

c Category C - Organizations that are to defer reconstitution until directed by appropriate authority.

3 Establishing three emergency executive teams from Category A agencies at the national level to perform essential functions during immediate preattack, transattack, and immediate postattack periods.

4 Requiring officially recorded lists of succession to office to provide leadership at locations from which national authority may be exercised. For national succession, a depth of at least 12 successors is recommended with at least 5 from outside the Washington, D. C., area.

C USDA Departmental Regulation 1800-1, Departmental Emergency Preparedness Responsibilities. This regulation assigns specific emergency functions to agencies within USDA. These functions include:

1 The development of standby defense emergency programs.

2 The activation and administration of these programs following a proclamation of a national emergency by the President or the Congress.

3 The development of plans for response to natural and manmade emergencies.

103 PROVISIONAL DELEGATION OF AUTHORITY

A line of succession shall be established by the Secretary of Agriculture and agency leaders in the event they are unable to act because of an enemy attack or other national defense emergency.

A USDA Category A agencies shall:

1 Establish a line of succession, including one or more persons located outside the Washington, D. C., area where possible.

2 Obtain the required security clearance for each successor.

3 Document the line of succession and obtain clearance from the Office of the General Counsel.

4 Send the original authenticated copy of the line of succession to the Director, Intergovernmental Affairs.

5 Preposition a copy in the agency records at each emergency operating facility.

6 Keep the line of succession current.

B USDA Category B and C agencies shall follow their regular administrative procedures for establishing a line of succession.

PART 2 - ORGANIZATION

201 AGENCY CLASSIFICATION AND FUNCTIONS

A Category A Agencies and Offices. The Secretary of Agriculture has designated the following as having essential, uninterruptible functions as described in Appendix A, during the immediate pre-attack, transattack, and immediate postattack periods:

1 Office of the Secretary - SEC.

2 Governmental and Public Affairs - GPA.

3 Departmental Administration.

4 Agricultural Research Service - ARS.

5 Agricultural Stabilization and Conservation Service - ASCS.

6 Animal and Plant Health Inspection Service - APHIS.

7 Food and Nutrition Service - FNS.

8 Food Safety and Inspection Service - FSIS.

9 Forest Service - FS.

10 Office of the General Counsel - OGC.

11 Soil Conservation Service - SCS.

12 Statistical Reporting Service - SRS.

B Category B Agencies and Offices. The Secretary of Agriculture has designated the following as Category B agencies having essential functions to the postattack period:

1 Agricultural Marketing Service - AMS.

2 Cooperative State Research Service -CSRS.

3 Economic Research Service - ERS.

4 Extension Service - ES.

5 Farmers Home Administration - FmHA.

6 Foreign Agricultural Service - FAS.

7 Office of Personnel - OP.

8 Rural Electrification Administration - REA.

C Category C Agencies and Offices. All other agencies and offices within USDA have been designated as Category C and will be reconstituted postattack when directed by the Secretary of Agriculture.

202 EMERGENCY EXECUTIVE TEAMS

A The emergency executive teams shall be known as Team:

1 Alpha.

2 Bravo.

3 Charlie.

B Personnel shall be designated by Category A agencies and offices and assigned to an emergency executive team to carry out the essential, uninterruptible functions of the agency or office.

1 Assigned members shall be a combination of policymaking and operational personnel.

2 Agency or office leaders shall serve on the Alpha Team.

3 The second person on the agency or office line of succession shall serve on the Bravo Team.

4 The third person on the agency or office line of succession shall serve on the Charlie Team.

5 Agencies and offices shall continue to follow the line of succession to complete their personnel quotas on the emergency executive teams.

6 Agencies and offices may assign a sufficient number of personnel to the Alpha Team to perform their essential, uninterruptible functions.

7 Bravo and Charlie Team personnel quotas have been established by the Secretary of Agriculture. (See Appendix B)

C The Secretary of Agriculture shall:

1 Designate team members from the Office of the Secretary, including at least one person in the line of succession to the Secretary of Agriculture on each team.

2 Provide a current list of team members to the Director, Intergovernmental Affairs, and report changes as they occur.

D The Assistant Secretary for Governmental and Public Affairs shall:

1 Assure that team members have the required security clearance.

2 Provide quotas and guidance to agencies on designating team members.

3 Provide adequate secretarial, communications, and other support assistance for the teams.

4 Maintain a list of emergency executive team members at each emergency operating facility.

E Agency and office leaders shall:

1 Designate team members in accordance with subparagraph 202 B.

2 Assure that team members have the required security clearance.

3 Provide a current list of team members to the Director, Intergovernmental Affairs, and report changes as they occur.

F Members of the Ready Reserve of the Armed Forces shall not be designated as emergency executive team members.

203 EMERGENCY OPERATING FACILITIES

A Team Alpha - USDA Washington Office. This is the primary facility for USDA. Selected policymaking and operational personnel will operate from this location. Similar designees of other Federal departments and agencies are scheduled to operate from their regular Washington offices.

B Team Bravo - Federal Emergency Management Agency (FEMA) Special Facility. This is the primary alternate facility where the USDA Bravo policymaking and operational team members would relocate along with other Federal departments and agencies. A TOP SECRET security clearance and a "need to know" are required to gain admittance to the facility.

C Team Charlie - USDA Emergency Operating Facility. This is the secondary alternate facility where the USDA Charlie policymaking and operational team members would relocate. Trained communications personnel are assigned to this facility. The location of this facility is classified CONFIDENTIAL. A SECRET security clearance and a "need to know" are required to gain admittance.

PART 3 - EMERGENCY ASSIGNMENTS

301 TEAM ASSIGNMENTS

A Team Alpha shall:

1 Report to the USDA emergency operations center in the Secretary's Primary Conference Room.

2 Perform essential, uninterruptible functions at the USDA Washington office when activated.

3 Provide support to the Secretary of Agriculture until directed otherwise.

B Team Bravo shall:

1 Report to the FEMA Special Facility when directed.

2 Provide support to Team Alpha as required.

3 Perform essential, uninterruptible functions of USDA when Team Alpha is unable to operate.

C Team Charlie shall:

1 Report to the USDA Emergency Operating Facility when directed.

2 Provide support to Teams Alpha and Bravo as required.

3 Perform essential, uninterruptible functions of USDA when Teams Alpha and Bravo are unable to operate.

D Other USDA Personnel. Personnel not assigned to one of the emergency executive teams shall provide a reserve which may be used to augment an emergency team or reconstitute USDA during the postattack period.

302 EMERGENCY TEAM RESPONSE

A Duty Hours. The following actions shall be taken by team members according to the level of readiness alert, described in Appendix C when notified by the Office of the Secretary.

1 Communications Watch. All team members shall continue their normal duty, unless otherwise directed.

2 Initial Alert.

  a Team Alpha. Report to the USDA emergency operations center in the Secretary's Primary Conference Room.

  b Teams Bravo and Charlie.

    (1) Team members shall continue their normal duty, unless otherwise directed.

    (2) Preselected team personnel shall report to their respective operating facilities and prepare them for occupation by the remaining team members.

3 Advanced Alert.

  a Team Alpha. Operations shall continue from the USDA emergency operations center in the Secretary's Primary Conference Room. Team members shall be prepared to relocate upon direction.

  b Teams Bravo and Charlie. All team members shall report to their respective emergency operating facilities.

4 Attack Warning. All team members should comply with local civil defense instructions and seek the best shelter available. Members shall report to their respective emergency sites when conditions permit.

B Nonduty Hours.

1 Communications Watch.

  a The Director, Intergovernmental Affairs, shall be notified.

  b Team members will not be notified at this readiness level.

2 Initial Alert and Advanced Alert. Team members shall be notified by USDA alerters with instructions on response desired.

3 Attack Warning.

  a Notification shall come through public warning system of the local civil defense.

  b All team members should follow civil defense instructions and seek the best shelter available.

  c Team members shall report to their respective emergency sites when conditions permit.

C Special Situations.

1 Inability to Report. Any team member who is unable to report to their assigned emergency operating facility shall notify their agency or team leader as soon as possible.

2 Personnel in Travel Status. Team members in travel status should contact their agency or team leader as soon as possible. If unable to contact them or an attack warning has been sounded, team members should follow local civil defense instructions and seek the best shelter available. When possible, report to their assigned emergency operating facility or the nearest USDA or FEMA operating center.

PART 4 - ALERTING PROCEDURES

401 RECEIVING NOTICE

A The Federal Emergency Management Agency (FEMA) shall inform one of the following of the readiness level and actions to be taken:

1 Director, Intergovernmental Affairs - Emergency Coordinator.

2 Alternate Emergency Coordinator.

3 ASCS Emergency Program Contact.

B The representative receiving the information shall:

1 Write down the message exactly as received and the time received. Repeat the message to the caller. (See Appendix D)

2 IMMEDIATELY contact the Secretary of Agriculture or the next designee in the line of succession.

a Relay the message received.

b Request instructions based on readiness level message.

C IMMEDIATELY relay instructions from the Secretary of Agriculture to:

1 Agency and office emergency contacts in Departmental Administration, GPA, ARS, ASCS, APHIS, FNS, FSIS, FS, OGC, SCS, and SRS.

2 Director, Office of Operations.

3 Chairpersons, USDA Regional Emergency Staffs.

4 Communications supervisor at the USDA Emergency Operating Facility.

D Agency and Office Alerting.

1 The agency Emergency Program Contact for ASCS shall alert:

a ASCS Emergency Executive Team personnel.

b Chairpersons, USDA State Emergency Boards

c ASCS field offices with specific emergency responsibilities.

2 The agency and office Emergency Program Contact for APHIS, ARS, FNS, FSIS, FS, OGC, SCS, and SRS shall alert their:

a Emergency executive team personnel.

b Field offices with specific emergency responsibilities.

3 Director, Office of Operations, shall alert emergency executive team personnel in the Office of the Secretary.

402 ALERTING METHODS

A National Offices.

1 Duty Hours. Use most expeditious means through regular organizational channels to the extent practicable.

2 Nonduty Hours. Use the telephone cascade system through regular organizational channels to the extent practicable.

B Field Offices.

1 Duty Hours. Use the most rapid communications system available such as telephone, telecopier, or rapid facsimile.

2 Nonduty Hours. Use the telephone cascade system.

C Record of Message. Any person receiving an emergency alerting message shall:

1 Record the message, including the time received.

2 Repeat the message to the caller.

3 Relay the message to all persons who are to receive alerting messages.

4 Follow instructions on action to be taken.

PART 5 - ADMINISTRATION

501 IDENTIFICATION CARDS

A Federal Employee Emergency Identification Card, FEMA Form 12-11. This photograph identification card is intended to facilitate travel during an emergency. Each team member shall be provided an identification card by their agency. See DR 1800-1, Section 24.

B Special Identification Card.

1 A photograph identification card is required to gain access to the FEMA Special Facility.

2 The Office of Personnel shall provide this special identification card to each Team Bravo member.

502 TELEPHONE LINE-LOAD CONTROL

A Telephone companies have developed this control system to allow personnel with emergency duties to have use of their residence telephones during an emergency period.

B Each agency and office shall notify the Director, Intergovernmental Affairs, of their personnel with emergency duties requiring telephone line-load control service.

C The Director, Intergovernmental Affairs, shall prepare and submit a list of persons designated for telephone line-load control service to the General Services Administration.

D Each agency and office shall report changes in personnel requiring telephone line-load control to the Director, Intergovernmental Affairs, as they occur.

503 TRANSPORTATION TO RELOCATION SITES

A Each emergency executive team member, upon receiving notification to relocate, shall:

1 Arrange for needed personal items, including clothing, prescription medicines, and other health-related items.

2 Proceed to assigned emergency operating facility by:

a Official vehicle, if available.

b Personal automobile.

c Rented automobile.

B Team members driving vehicles shall provide transportation to other team members when possible. Advance arrangements should be made by team members.

504 EMERGENCY TRAVEL AUTHORIZATION

Each agency shall provide advance authorization for emergency travel and vehicles. This authorization shall also cover field personnel required to travel to emergency relocation facilities. (See Appendix E)

505 CARE OF DEPENDENTS

A Team members are responsible for arranging in advance for the care of their family in the event they are directed to relocate.

B Family members shall NOT accompany team members to the FEMA Special Facility or the USDA emergency operating facility, as no accomodations are available for dependents.

506 EMERGENCY RECORDS

Each Category A agency and office shall assure that essential operating records pertaining to its emergency operating functions are maintained at each of the emergency operating facilities.

507 AGENCY INSTRUCTIONS

Each Category A agency and office shall issue instructions on alerting procedures and administrative details to personnel with emergency assignments. These instructions shall be in accordance with guidelines contained in this document and Departmental guidance, direction, and regulations.

508 ORIENTATION AND TRAINING

Each Category A agency and office shall provide its team members with orientation and training, including:

A The overall USDA functions to be carried out during the immediate preattack, transattack, and immediate postattack periods.

B The specific role of the agency in carrying out its emergency operating functions.

C Assignments to individual team members, with instruction and guidance for carrying out their assignment and function.

D The location of the FEMA Special Facility for Team Bravo members and the USDA Emergency Operating Facility for Team Charlie members.

E Any other material needed to keep team members informed of emergency preparedness.

APPENDIX A

USDA Essential Uninterruptible Functions To Be Performed by Emergency Executive Teams

Agency or Office	Essential Uninterruptible Function
Office of the Secretary	Provide executive policy guidance, management, and direction for USDA emergency programs.
Governmental and Public Affairs	Direct and coordinate USDA public affairs and emergency preparedness programs; establish and maintain liaison with the Federal Emergency Management Agency (FEMA).
Departmental Administration	Manage emergency communications at headquarters location and coordinate transportation by official vehicles.
Agricultural Research Service	Provide guidance on the effects of radiation on agriculture; provide procedures for producing, processing, storing, and distributing agricultural commodities and perform agricultural research in support of defense preparedness.
Agricultural Stabilization and Conservation Service	Direct emergency actions for food processing, storage, and distribution through the wholesale level, and agricultural production, including the distribution and use of seed and feed, the domestic distribution of fertilizer and farm equipment and grain storage and distribution; control and allocate water for use in agricultural production and food processing; appraise the impact of an attack on food and agricultural resources; consolidate claimancy for essential materials and supplies.
Animal and Plant Health Inspection Service	Provide guidance on the protection of crops and livestock from diseases, pests, and chemicals introduced as agents of biological or chemical warfare; direct the utilization and disposal of livestock and poultry exposed to radiation.
Food and Nutrition Service	Authorize the distribution of USDA-donated foods and the emergency use of food stamps; maintain current inventories of USDA-donated food held in State-owned and commercial warehouses.
Food Safety and Inspection Service	Inspect meat and meat products and poultry and poultry products to assure purity and wholesomeness; assist FDA in the inspection of other food products.
Forest Service	Estimate the extent and effect of fire in rural areas; determine attack damage to National Forests and other forested areas; implement emergency protection and production of timber and timber products.

Agency or Office	Essential Uninterruptible Function
Office of General Counsel	Provide legal advice on emergency actions; review and assist in the preparation of proposed legislation relating to USDA emergency programs.
Soil Conservation Service	Provide technical assistance on the use of land for agricultural production; control or reduce soil erosion and runoff; treatment of soils to reduce radiological or other contamination; estimate attack effects on agricultural soils and water.
Statistical Reporting Service	Provide agricultural statistics to support USDA emergency programs; analyze and summarize USDA damage assessment data; coordinate the national level assessment of effects of attack on food and agricultural production resources.

APPENDIX B

Emergency Executive Team Personnel Quotas

Agency or Office	Alpha 1/	Bravo 2/	Charlie 2/
Office of the Secretary	9	5	5
Governmental and Public Affairs	3	2	2
Departmental Administration	5	1	1
Agricultural Research Service	5	2	2
Agricultural Stabilization and Conservation Service	23	8	8
Animal and Plant Health Inspection Service	5	2	2
Food and Nutrition Service	3	2	2
Food Safety and Inspection Service	5	2	2
Forest Service	3	2	2
Office of the General Counsel	2	1	1
Soil Conservation Service	2	2	2
Statistical Reporting Service	6	2	2
Totals	71	31	31

1/ Alpha team quota represents minimum staff requirements.

2/ Bravo and Charlie team quotas represent maximum staff allowed.

APPENDIX C

Federal Civil Readiness Levels

Communications Watch	Operations of the Federal Government shall be carried on without public disclosure and minimum internal disclosure. Communications coverage shall be established on a 24-hour basis.
Initial Alert	Emergency operating centers at regular national offices shall be activated and operated continuously. Alternate emergency operating facilities shall be prepared for activation by the Advanced Team. There shall be a minimum of public notice. Regional, State, and field offices shall be notified.

Advanced Alert	All emergency operating centers at national and regional levels shall be operated continuously. The public shall be notified of emergency and civil preparedness actions to be taken.
Attack Warning	An attack upon the United States has been detected.

APPENDIX D

ALERTER'S RECORD OF INSTRUCTIONS AND RESULTS OF ALERT

1 Name of caller (Agency or Primary Alerter) ____________________

Phone number to report to upon completion of assignment ____________

Date and time you were called ____________________

2 Instructions received (repeat instructions to alerter to verify accuracy):

____

____

____

____

____

____

3 Results of alert (record as calls are made):

Person Contacted	Date	Time

Name of Alerter ____________________

Date and time results reported to Agency or Primary Alerter ____________________

APPENDIX E

UNITED STATES DEPARTMENT OF AGRICULTURE
(1) SPECIAL DEFENSE AUTHORIZATION
(AGENCY)
TRAVEL AUTHORIZATION

1. Authorization No.
2. Date

The person named below is authorized to travel and to incur necessary expenses of travel in accordance with provisions of applicable laws and regulations.

3. Name	4. Official Station	4a. Former Residence
5. Title Executive Team Members Emergency Board Personnel	6. Travel to begin on or about Upon declaration of National emergency	7. Travel to end on or about INDEFINITE

8. Itinerary
Travel to emergency relocation sites and other points as may be necessary within the United States, Puerto Rico, and the Virgin Islands.

9. Purpose of travel - Code 8
To conduct official business in connection with (1) emergency assignments and related activities of the Department.

10. Per diem allowance
Per diem or actual subsistence rates shall be as authorized by the Federal Travel Regulations and (2)

11. Travel by privately-owned automobile is authorized; mileage at rates indicated below will be allowed: (Mileage allowances for change of station are shown in section 12.) Travel by privately-owned automobile is authorized as advantageous to the Government at the current mileage rate authorized in the Federal Travel Regulations

a. ______ Cents per mile plus ferry fares and bridge and tunnel tolls and (2)

b. ______ Cents per mile personal preference rate

12. In connection with change of station, the following will be allowed:

a. ☐ Transportation of immediate family

b. ☐ Transportation of household goods and personal effects

Mileage for use of privately-owned automobile for transportation of employee and members of his immediate family, as follows:

c. ______ Cents per mile when two or more persons travel together

d. ______ Cents per mile when one person travels alone

(1) employees who have been designated specific defense responsibilities are authorized to travel and to incur necessary travel and incidental expenses as required in carrying out such responsibilities in a national defense emergency declared by proper authority.

Special Authorizations

1. Special conveyances are authorized when determined necessary by the traveler.
2. Hire of emergency help (clerical, laborers, etc.) is authorized when necessary.

The travel and transportation authorized above are in the interest, and to the advantage, of the Government, and the change of station, if any, is not made primarily for the convenience or benefit of the employee or at his request.

Name and title of authorizing official (3)	Signature

Form AD-202 (7/80)

Travel Authorization

(1) Enter agency initials, i.e., APHIS, ASCS, FSIS, FNS, etc.

(2) Enter agency instruction number.

(3) Type name and title.

NATIVE AMERICAN WORKING GROUP

1 PURPOSE

On January 15, 1983, the Secretary ordered the establishment of the NATIVE AMERICAN WORKING GROUP (Working Group) to assist in the coordination of all USDA activities of interest to the Native American population, and to guide and counsel USDA agencies in providing service to Native Americans. The regulation sets out the Working Group's responsibilities and identifies the methods by which the Working Group will operate and report on its activities.

2 SPECIAL INSTRUCTIONS

The Secretary's Policy and Coordination Council retains authority for establishing Departmental Policy relating to coordination of USDA activities of interest to the Native American population.

3 POLICY

It is the policy of the USDA to improve opportunities for all rural Americans by providing for effective and efficient coordination of Federal agricultural and rural development programs within each of the individual states and territories.

4 DEFINITIONS

Native American means a member of any Indian tribe, band, group, or nation including Alaska Indians, Aleuts, Eskimos, and Alaska Native villages of the United States.

5 BACKGROUND

The majority of the Native American population of the United States reside in rural areas. In fact, of the total Native American population, 1.4 million persons, over half live on rurally located tribal reservations. As it is the policy of this Department to improve opportunities for all rural Americans, USDA agencies have the responsibility for directing resources to the Native American segment of the rural population on an equal basis with the rest of the rural population.

In the past, individual USDA agencies have taken the initiative in finding ways to serve Native Americans as a group. However, there is still a need for Departmentwide coordination to assure this clientele equal access to the services and programs of USDA agencies.

Therefore, the Secretary has ordered the establishment of the Working Group within the Governmental and Public Affairs Committee of the Secretary's Policy and Coordination Council.

6 RESPONSIBILITIES

The Working Group will provide such advice, support, or other assistance to the Assistant Secretary for Governmental and Public Affairs as may be required to ensure the coordination of all USDA policies or programs regarding Native Americans.

7 OPERATIONS

a USDA's Native American Activities Coordinator, established within the Office of Intergovernmental Affairs, will serve as both the Executive Secretary and the Chairperson of the Working Group.

b Membership on the Working Group will consist of senior USDA officials as selected by the Assistant Secretary for Governmental and Public Affairs.

8 MEETING

The Working Group will meet on the call of the Chairperson as a group or individually as necessary, but will meet as a group at least quarterly to address the objectives and interests of the respective USDA activities in Native American territories. Other persons, agencies, or groups may be invited to attend specific meetings when deemed appropriate.

9 REPORTING

Before the end of each fiscal year, the Working Group will summarize its activities during the preceding year and will submit a report to the Secretary of Agriculture. The Working Group will respond to all requests for information that are in accordance with the responsibilities assigned in this regulation.

INTERGOVERNMENTAL AFFAIRS

Question: Please describe what your Intergovernmental Affairs people have done in regards to Indian programs.

Answer: On January 15, 1983, a Native American Working Group was established on an informal basis to assist in the coordination of all USDA resources of interest to American Indians. This group was also formed to provide guidance and counsel to USDA agencies in allocating these resources among the Indian population. A formal Departmental regulation was issued on December 6, 1983, describing the Working Group's responsibilities and providing a means for its continued existence.

Formation of this interagency group is but one of several activities undertaken by the Office of Intergovernmental Affairs to assist American Indians and Alaska Natives.

Other examples include:

- -- Development of a Departmental policy to provide equitable Soil Conservation Service and Farmers Home Administration assistance to Indians residing on Indian lands, as is provided to non-Indians on non-Indian, privately-owned lands;
- -- Development of a Departmental policy through the Soil Conservation Service to assist conservation districts organized under Indian tribal laws;
- -- Publication of a booklet describing USDA programs which can be utilized by American Indians and Alaska Natives;
- -- Development of a pictorial booklet showing American Indian and Alaska Native achievements in cooperation with USDA programs (still in progress. Upon completion it will be made available to the Indian community); and
- -- Research and assimilation of career development material for American Indian and Alaska Native youth through the Extension Service and the Bureau of Indian Affairs of the Department of Interior (still in process).

YEARBOOK OF AGRICULTURE

Question: In the past, we have asked the Department to keep us advised in advance of developments relating to the Yearbook of Agriculture. What is the status of your planning for the 1984 Yearbook?

Answer: The 1984 Yearbook has been planned and the authors assigned. Some chapters are currently being edited by the Yearbook staff. We anticipate publication by mid-December.

Question: Are you still planning to devote the 1984 Yearbook to animal health?

Answer: The 1984 Yearbook will be devoted to animal health, more specifically, to livestock and pet health.

OFFICE OF THE INSPECTOR GENERAL

STATEMENT OF JOHN V. GRAZIANO, INSPECTOR GENERAL

GENERAL COMMENTS

My statement will provide the Office of Inspector General's (OIG) overview on major programs and activities of the Department as well as the activities of OIG.

We have directed current efforts to reviewing Department programs such as the Payment-in-Kind, Food Stamp, Rural Electrification, and Farmers Home Loans and to monitoring internal controls, as prescribed by the Federal Managers' Financial Integrity Act of 1982. Also, we continue to emphasize preventive measures such as the use of computer matches to detect fraud before it results in larger losses to the Government and in our up-front involvement in agency development of computer systems.

Eighty-one percent of our audit and investigative resources are spent in three of the Department's program areas. These are the Food and Consumer Services (36%), Rural Development (25%), and International Affairs and Commodity Programs (20%).

PUBLIC HEALTH ACTIVITIES

Inspection Efforts

I would like to highlight some of our efforts during the past year relating to the public health. We have been very active in the Department's inspection programs. In Pennsylvania five persons, including the owners of a federally inspected plant and custom slaughterhouse, were found guilty of conspiring to slaughter diseased cattle without the benefit of inspection. These individuals also fraudulently applied the USDA inspection brand to the illegally slaughtered carcasses and transported the meat for human distribution. The owner of the federally inspected plant was fined and sentenced to prison. Two others also received prison sentences.

In an investigation in Arkansas, the owner of a federally inspected plant and two others pled guilty to charges of conspiracy and to handling adulterated and misbranded beef. The adulterated beef was derived from unhealthy animals that were slaughtered off premises and transported to the plant in boxes. The owner was fined and sentenced to prison.

In New York, another owner of a federally inspected plant pled guilty to charges of conspiring to defraud the Government and of misrepresentation and fraud. The guilty pleas resulted from a joint OIG/Federal Grand Jury investigation which established that employees of the plant, under the owner's direction, were obtaining cattle for slaughter that were of inferior quality, and were concealing damaged or inferior carcasses from Federal inspectors. The plant employees were also harassing and verbally abusing the Federal meat inspectors assigned to this plant. The owner was fined, given a suspended sentence and placed on probation. The corporation was also fined.

An investigation completed by OIG and the Kansas Bureau of Investigation led to the arrest of an individual who had made telephone calls to a poison control center, a television station, and the Iowa Beef Packing Company claiming that he had laced meat products produced by the packer with LSD, arsenic, and cyanide. The individual was apprehended and charged under Kansas law and was found guilty of telephone harassment and making a terroristic threat. Had the recently enacted Federal Anti-Tampering Act been in effect at the time of this investigation, it would have also allowed for Federal felony charges to be filed against the individual.

False Representation in Brucellosis Test Records

Brucellosis is a highly infectious disease which causes abortion, sterilization, and loss of milk-producing ability in cows. It also poses a danger to human health. As a result of an OIG investigation, a corporation and its principal officer were found guilty of 38 felony counts of making a variety of false representations to the Department concerning brucellosis and tuberculosis test records. The false representations ranged from increasing the number of cows on the test records to substituting the blood from a few healthy "donor" animals for that of hundreds of cows. The defendant corporation, at the time of the crimes charged, was a large cattle dealer, selling cows in both interstate and foreign commerce. Sentencing in this matter is pending in the Southern Judicial District of New York.

Testing of Commodities

Assuring the quality of Government-owned dairy products has been of special concern to OIG. In 1983 we identified a recently developed European method of testing for an adulterant in nonfat dry milk. A major food company has adopted this laboratory method as part of its official quality control procedures. OIG testing for the adulterant, called whey protein concentrate (WPC), began after our investigation of an Iowa cooperative disclosed that it had sold the Commodity Credit Corporation (CCC) over $4 million worth of nonfat dry milk adulterated with whey protein concentrate. Co-op employees admitted deliberately adulterating the milk and the co-op manager has agreed to plead guilty to two felony counts and to make restitution.

Since WPC costs about 40 cents a pound and nonfat dry milk is supported at 94 cents a pound, this type of adulteration is economically attractive. Through a full-scale statistical sampling, we subjected the 1.2 billion pounds of nonfat dry milk in inventory as of January 1983 to laboratory analysis and testing. This has been completed and we have confirmed the integrity of CCC's nonfat dry milk inventory.

We also examined CCC butter purchases to determine if they met contract specifications and grading standards. As of August 1983, CCC had 475 million pounds of butter in inventory. We found that the Department did not have adequate administrative controls to determine if products purchased were in compliance with contract specifications. Agricultural Marketing Service tested for butterfat content, but questionable practices were followed in selecting samples for testing. Also, no tests were made to determine if the grading standards for pasteurization and foreign materials were met.

Our audit found that nearly 70 percent of the 370 lots statistically selected and tested did not meet one or more of the contract specifications and grading standards. Laboratory tests showed numerous instances of less than the statutory minimum 80 percent butterfat content, improperly pasteurized cream, and the presence of foreign materials.

As a result of our efforts the Department has conducted a review of its dairy product grading and inspection procedures and prepared a corrective action plan. We believe these corrective actions, when fully implemented, will resolve most of the problems we have identified and strengthen the dairy grading and inspection program.

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

COMMODITY CREDIT CORPORATION

Payment-in-Kind (PIK) Program

OIG began monitoring the development and implementation of the 1983 PIK Program soon after it was announced. We found that the PIK Program was adequately presented to producers and that PIK contracts generally were properly completed. However, ASCS needed to strengthen the procedures and guidelines used to process program acreage base appeals, farm reconstitutions and program crop yields for feed grain, wheat and cotton. ASCS has revised its 1984 procedures to implement these recommendations.

We also conducted a compliance review of selected farms in the 20 States in which producers would receive the greatest program benefits. We estimated that producers on 11 percent of the farms enrolled in those States did not fully comply with program requirements because they designated ineligible or insufficient land as conserving use acres, or planted crops in excess of the allowable tolerance.

If sample results were projected, payment and benefit reductions of at least $146 million could be assessed if determinations were made that all producers made a good faith effort to comply with the Program. Greater reductions would be required for producers who did not act in good faith. In addition, about 6 percent of the farms did not carry out needed maintenance practices on the conserving use acres. Recommendations were made that future programs have an offsetting compliance provision for nonparticipating farms, provide for adjustment of payments to reflect the productivity of land taken from production, particularly when both dry and irrigated land is involved, and exclude, for conserving use purposes, land which would not be cropped in the absence of the program.

FARMERS HOME ADMINISTRATION

Emergency Loan (EM) Program

The Farmers Home Administration's (FmHA) total outstanding loan balance reached $62.8 billion at the end of fiscal year 1983. Over $25 billion represented farmer program loans. Delinquencies reached more than 40 percent in some farm loan programs.

In the emergency loan program we found that the eligibility criteria established for these loans in 1982 were either misunderstood, misinterpreted, or simply not followed by FmHA field offices. For example, from a sample of about 50,000 delinquent borrowers, we found loans totaling $68 million were undersecured by about 53 percent of the outstanding loan balances. There were several reasons for this: inadequate loan supervision and servicing; unauthorized or illegal disposition of loan security; declines in farm real estate and equipment values; and overstated values of crops and chattels accepted as loan security. Based on this sample we projected nationwide, that approximately 11,350 of the 50,000 delinquent EM loan borrowers were undersecured by $1.1 billion.

One of our investigations identified an FmHA County Supervisor and a Program Specialist in the State ASCS Office who fabricated FmHA loan files for two nonexistent FmHA borrowers. In a two-year period they defrauded FmHA of over $800,000 in Emergency and Disaster loan funds. The two officials resigned during the OIG investigation and each pled guilty to one count of conspiracy to defraud the Government.

Rural Housing Loan Program

We also identified 1,236 loan accounts in 1980 with expired interest credit agreements in which annual interest credit subsidies totaling $940,000 continued. A follow-up audit found that the number of loan accounts with expired interest credit agreements had increased to 2,056 as of July 1982 with an annual interest credit subsidy of $1.8 million. Since OIG made that report to the FmHA, the number of such accounts has been reduced to 497 with a corresponding decrease in interest credit subsidy to $430,000. In addition, FmHA has initiated a review of interest credit accounting procedures to identify problems and determine corrective actions.

In another review OIG recommended FmHA develop a comprehensive plan to reduce its rural housing inventory. The inventory had increased from 5,544 properties as of December 31, 1979, to 12,873 properties as of December 31, 1982, with dollar investments of $126 million and $391 million, respectively. Immediate action could yield significant benefits. For example, for each 1,000 properties sold, FmHA can recover $30 million and save interest costs of over $3 million annually.

RURAL ELECTRIFICATION ADMINISTRATION (REA)

Our audits of REA's Electric Distribution Program reported problems in loan making procedures and policies and the rapid deterioration of REA's almost $7.9 billion revolving fund. The high cost differential between interest costs on money borrowed by REA and the mandatory five percent maximum rate on loans made by REA is causing the deterioration. We recommended a combination of charging higher interest rates and decreased lending as a means of strengthening the fund.

A 1973 amendment to the Rural Electrification Act required that cooperatives obtain between 10 and 30 percent of their loan needs from non-Government sources and that REA encourage the achievement of financial self-sufficiency. Our audits identified 110 financially strong cooperatives which appeared able to obtain all or a large portion of their financing from non-Government sources. Additionally, we found that the retail electric rates charged by financially strong cooperatives would not increase significantly if REA charged interest equal to U.S. Treasury rates on the loans. Based upon these factors, we recommended that REA seek legislation to require increased financing from non-Government sources. We further recommended that REA consider instituting a guaranteed loan program which could result in significant interest savings to the Government while continuing to provide a financing source to financially strong cooperatives.

We also identified 54 cooperatives whose service areas had changed from rural to predominantly urban in nature. The 54 cooperatives were serving areas where 50 percent or more of the consumers resided in Standard Metropolitan Statistical Areas. These 54 cooperatives received REA subsidized loan funds of about $600 million during the years 1979 to 1982.

FOOD AND NUTRITION SERVICE

The Food and Nutrition Service (FNS) administers five major programs: Food Stamps; Child Nutrition; Special Supplemental Food for Women, Infants and Children; Special Milk; and Food Donations. The FNS budget request for fiscal year 1985 is about $17 billion.

Food Stamp Program

We have entered into an agreement with the U. S. Secret Service which authorizes the Secret Service to focus on criminal elements outside the Program, such as food stamp thieves or counterfeiters and persons suspected of trafficking in food stamps. The Secret Service's activities will enhance our overall efforts to investigate external food stamp violations. It will also allow us to concentrate more of OIG's investigative efforts on detecting violations by persons directly involved in the administration of the program, including certification of food stamp benefit recipients and redemption/handling of coupons.

The Food Stamp Program will continue to receive a significant portion of our efforts. For example, wage matching, which has proven to be a successful tool in detecting underreported income, was mandated in the Program and was to be implemented by each State agency by January 1, 1983. Our audit disclosed that as of August 1983, the 15 States we reviewed had not performed a complete wage match or had not taken corrective action on potential errors. We are making recommendations to assist FNS and State agencies in achieving an effective wage matching program.

OIG audited the management of one State's computer system financed in part by FNS. We identified problems in the computer system's ability to handle the workload. Extended downtime due to overloading the system or system failure contributed to program losses of $3 million of Authorization-to-Participate (ATP) card issuances because of duplicate issuances and unreconciled redemptions. However, in our opinion, the Federal program losses could have been avoided if the State had followed existing instructions and exercised proper controls in implementing the new computer system.

In another State audit, we statistically projected that files were missing for more than 14,000 cases supporting ATP issuances of over $16 million. The State was unable to support the validity of about 20 percent of the missing cases involving issuances of over $1.3 million. Based on our audit, FNS billed the State agency, which has subsequently filed suit against the Department. The case is now being defended by the Department of Justice.

DEPARTMENTAL ACTIVITIES

Our evaluation of departmental administration activities reviewed three key areas. One concerned automated data processing systems where we found USDA agencies have not followed a standard System Development Life Cycle process when developing major automated systems, nor had they ensured that adequate internal controls were built into the systems. We also reviewed the Department's internal control evaluation process and found that the depth and direction of evaluations were not sufficient to determine the adequacy of the Department's system of internal control. Debt Management was another area we reviewed during the year. As a result of that review the Department adopted our recommendation that debts written off be reported to IRS for tax purposes.

Support of Federal Drug Task Force Groups

Recently, attention has been focused on a lack of intelligence information concerning production of domestic marijuana. The House Government Information, Justice, and Agriculture Subcommittee identified a high priority need for intelligence information and highlighted that domestic marijuana was being grown largely on agricultural land and had exceeded commercial food crops in cash value in some areas.

Aerial compliance photography on approximately 90 percent of agricultural land is used by the Agricultural Stabilization and Conservation Service (ASCS) to insure compliance with federally funded farm programs of the USDA. On several occasions, as a result of aerial compliance photography flights, we have furnished information on marijuana cultivation to State and local law enforcement agencies. The arrest by State and local authorities of three individuals in a recent incident in Southern Georgia involving 6.8 acres of marijuana valued at over $5 million was the result of intelligence information furnished by USDA.

We are setting up a reporting mechanism within USDA to make this nationwide intelligence information available to the Department of Justice and other enforcement agencies.

Forest Service Imprest Fund Review

We have also looked at cash management and internal controls in handling cash and negotiable documents. A series of investigations over the past 18 months has resulted in indictments, convictions and disciplinary action against eight employees of the U.S. Forest Service for financial irregularities including embezzling imprest funds and theft of fees paid by the public for use of Forest Service facilities. Most recently, in January 1984, four employees in a national forest in Oregon were indicted by a Federal Grand Jury for embezzling approximately $67,000 in money and government property.

Based upon this series of investigations, OIG is emphasizing coverage of imprest fund procedures in our current nationwide Financial Management Audit of the U.S. Forest Service.

OIG FY 1983 ACCOMPLISHMENTS

During fiscal year 1983 OIG issued 760 audit reports and 2,562 investigative reports. As a result of our investigations 1,252 indictments and 1,056 convictions were obtained, 19 suits were filed and 380 fines were levied totaling approximately $19 million. The audits resolved during FY 1983 resulted in disallowances and claims of $153.2 million by program agencies. While this is an indicator of OIG's direct impact on fraud, waste, and abuse, many other OIG accomplishments, such as waste prevention, crime deterrence, or cost avoidance, cannot be readily quantified. However, these contribute significantly to USDA's overall effectiveness.

FY 1985 OIG BUDGET REQUEST

The FY 1985 budget request for the Office of Inspector General is $46,066,000, a net increase of $1,070,000 over FY 1984. The increase includes: $715,000 for annualization of the pay costs absorbed in FY 1984 and $500,000 for office automation and increased ADP activities. It also includes a decrease of $145,000--$20,000 associated with improved efficiencies in administrative support activities, and $125,000 associated with a phased reduction in grade levels GM/GS 11-15 through attrition.

OIG utilizes the Departmental Computer Centers for internal management information systems as well as to develop more cost effective means to expand our audit and investigative activities in such areas as the use of advanced computer matching and analysis techniques, statistical projections, and data and information resource management reviews. The proposed increase will be used to enhance our use of ADP technology and to assist in the implementation of an agencywide integrated office automation system that will link our Audit and Investigations offices nationwide. The objectives of this system are to improve productivity and to increase the flow and timeliness of information from and between our field offices and headquarters. It will also improve support to field operations and management reporting.

At this time, I would be glad to answer any questions the Committee may have.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

OIG OFFICE AUTOMATION SYSTEM/ADP

Question: Has the cost benefit analysis which was to identify alternative cost options for office automation systems been completed?

Answer: No, not at this time, but it is in the final stages.

Question: Are you in the process of soliciting for an office automation system now?

Answer: No. After the cost benefit analysis is completed, we must submit it along with a Request for Proposals (RFP) for review and approval before we can solicit for a system.

Question: Do you still intend to award a contract the last quarter of this fiscal year?

Answer: We originally intended to award the contract before September 30; however, because of the lengthy approval process, including review and approval by GSA prior to releasing the RFP, we cannot be sure we will meet that timetable.

Question: What do you estimate will be the total cost of an office system over the 3-year period?

Answer: Based on studies by other agencies for similar type systems, our early estimate is approximately $3 million.

RURAL ELECTRIFICATION ADMINISTRATION

Question: One of the major areas you audited this year was REA's control over borrower's receipt and use of loan funds. You reported that you found that some cooperatives were routinely using loan funds for unapproved purposes. How widespread is this? What recommendations did you make to REA to correct this situation? What were some of the unapproved proposals for which these funds were used?

Answer: Your question addresses two areas covered in our recent audits of the loan program for electric distribution cooperatives. We found problems in the REA's controls over loan disbursements and in borrowers' use of loan funds.

REA attempts to control loan disbursements by requiring that a cooperative's general fund level fall below 8 percent of the value of Total Utility Plant before loan advances can be made. Our audit concluded that the 8 percent rule was ineffective and was avoided by transactions including patronage capital retirements and prepayments of debt and expenses, as well as by errors and omissions in preparing requests for loan advances. We reviewed loan advance requests from 65 cooperatives and found that 43 cooperatives had reduced their general fund levels below 8 percent of Total Utility Plant through various means and therefore received over $19 million in questionable REA loans. Based upon those results we statistically estimated that questionable loan advances totaling $254 million occurred between January 1980 and June 1983. We recommended the elimination of the 8 percent rule for disbursement of loan funds and the establishment of procedures to evaluate loan applications based upon an analysis of borrowers' working capital and on the workplan used to support the loan application. Loan advances would then be made based upon completion of planned work.

We also found that cooperatives had not always used loan funds for approved construction work. REA approves loans based, in part, upon a 2-year construction workplan. We reviewed 32 cooperatives and found that 26 did not always use loan funds for approved construction work. Of approximately $421 million in loans to the 32 cooperatives, about $61.9 million was used for construction not included in an approved workplan, and for work completed in prior workplans. Subsequently, 20 of the 26 cooperatives reapplied for additional loans based, in part, upon previously approved but uncompleted construction work.

We recommended several actions to improve controls including: 1) Use of REA field personnel to conduct reviews to determine that funds are properly obtained and used only for loan purposes identified in an approved workplan; 2) A requirement that borrowers obtain REA's approval of substantive changes in workplans before advancing funds for newly planned construction; 3) The discontinuance of advancing funds for work completed prior to the current workplan period; and 4) the recovery of loan funds advanced to cooperatives which improperly obtained the funds.

COMPUTER MATCHING

Question: You indicated last year that you intended to escalate the rate in using computer matching techniques in addressing the problem of fraud in some of the benefit programs. To what extent have you done this?

Answer: We have continued to conduct computer matches to facilitate our work. Our efforts during the last year were a

- wage-match of Farmers Home Administration files in one State to detect rental housing tenants and rural housing borrowers who underreported their wages.
- wage-match of statistically selected FmHA borrowers in another State to detect underreporting of wages.
- comparison of food stamp redemptions with food stamp issuances in one State to determine if any area showed an unusually excessive amount of redeemed stamps as compared to issuances.

Question: What have been the results?

Answer: We do not yet have the final results of the three most recent computer matches, however, specific cases have been identified for additional followup. Audit work is continuing on a random sampling basis to confirm the accuracy of wage matches and identify instances of underreporting wages to obtain FmHA benefits. The computer match of food stamp redemptions and issuances has been completed, and the results are currently being analyzed to identify program weaknesses (e.g., illegal trafficking).

Question: Do you still feel that this technique is a significant or effective tool in reducing fraud and waste?

Answer: In our opinion, computer matching is a viable tool to reduce fraud and waste. We have found that this process can be used to highlight potential program weaknesses and identify cases of fraud and waste through the examination of vast amounts of data in a short period of time.

Question: Have you done any auditing of the school lunch verification or matching? What are the results?

Answer: An audit of one large metropolitan city has been initiated to evaluate the accuracy of the city's verification procedures. The computer match has not yet been conducted so we have no results to date.

MONEY SAVED VS APPROPRIATIONS

Question: Can you identify the amount of money recovered from fines and penalties resulting from OIG investigations?

Answer: Yes. We have an automated Management Information System (MIS) which tracks our cases and their results. In FY 1983 we had recoveries and collections totaling $5,807,274 from our investigative activities. In addition, we obtained $1,103,498 in fines.

Question: How much for recoveries from audits?

Answer: In fiscal year 1983 a total of $153.2 million was referred for collection with an additional $513,000 in sanctions collected as a result of audit activities. During the first half of fiscal year 1984 claims for $32.9 million have been established and $3.3 million in court-ordered sanctions assessed.

These figures are based upon agency implementation of audit recommendations. OIG does not report the amounts until the affected agency has either established a claim for collection or has determined to offset future payments by the amount recommended for collection. Also, included in this category are loans or loan guarantees cancelled as a result of audit recommendations.

Question: How do these compare with your overall appropriation?

Answer: The FY 1983 OIG recoveries, collections, or referrals for collection almost quadrupled its appropriation -- $160 million versus $43 million appropriated.

PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

Question: On what projects was/is the USDA/OIG the lead agency during fiscal years 1983 and 1984?

Answer: USDA/OIG has not been the lead agency for any President's Council on Integrity and Efficiency projects during fiscal years 1983 and 1984.

Question: How much of OIG's time is used for PCIE projects?

Answer: We have participated in several PCIE projects and have followed up on the status of corrective action on several successfully completed projects. About 4-5 staff years have been used annually on these efforts.

GRACE COMMISSION REPORT

Question: Have you examined or studied the recommended changes made by the Grace Commission for the USDA?

Answer: The Grace Commission Recommendations for Agriculture have been reviewed at all levels of the Office of Inspector General.

Question: Have you made any recommendations to the agencies based on the Grace Commission's report?

Answer: No. However, we are monitoring agency implementation of the recommendations and as trends develop we will include them in our Audit Workplans for more intense scrutiny.

FEDERAL CROP INSURANCE CORPORATION

Question: The Subcommittee has some concerns about the apparent discrepancies in the crop reporting statistics of the Federal Crop Insurance Corporation. Not only have there been discrepancies in the numbers, but when asked to justify or indicate how numbers had been derived, FCIC could not do so. Have you conducted any audits or investigations of FCIC activities, etc? If not, why not? If so, what were the results?

Answer: During FY 1984 OIG has issued three audit reports on FCIC activities, and we are now working on five additional audits. We have found no apparent discrepancies in crop reporting statistics. However, we have audited the Corporation's actuarial practices and procedures. This audit disclosed that FCIC had not developed the premium rate setting and adjustment procedures to assure that premium income will be sufficient to cover normal crop losses and to establish a reasonable reserve against unforeseen losses. We also found that coverage and rate structures were not adjusted to reflect current yield and experienced loss trends. Another audit disclosed that the acreages FCIC used to weight the base guarantees established for each risk area were not reflective of the insured cropping patterns. FCIC has made a positive response to the recommendations made by OIG in these reports.

We have not conducted any investigations of FCIC crop reporting activities. No issues or incidents warranting such investigations have come to our attention. However, we do occasionally conduct investigations of questionable crop loss claims on the part of FCIC insured producers.

MEAT IMPORT INSPECTION

Question: Have you performed any type of followup inspection activities in regard to foreign meat inspection activities of the FSIS?

Answer: The inspection of imported meat and meat food products is a subject of continuous concern to OIG. Over the years OIG has conducted a number of investigations and audits in this vital area and has made a number of recommendations to FSIS to alleviate program weaknesses. Currently, the Inspector General is personally involved in an ongoing criminal matter involving meat import program irregularities in Central America.

Question: What are the results?

Answer: Some of the changes instituted by FSIS as a result of our investigations and audits include a prohibition on the application of the "U.S. Inspected and Passed" markings on meat and poultry products prior to final import inspection, and better controls on the movement and/or disposition of "refused entry" products. All of these actions have served to decrease the likelihood that adulterated or misbranded products will enter U.S. commerce.

CONTRACTING

Question: Have you made any changes in your contracting for audit services?

Answer: No. We have continued to contract for audits on a limited basis with CPA firms.

Question: How do you determine which investigations will be contracted out?

Answer: Aside from USDA/Equal Employment Opportunity (EEO) investigations we do not contract out, nor do we have any plans to contract out investigations in the future.

Question: Why did you decide to contract out EEO complaints appeals investigations?

Answer: Following the passage of the Civil Rights Act of 1964, OIG was given the added responsibility of conducting USDA/EEO investigations, with no increase in staffing. These investigations consumed an average of 20 staff years annually.

In October 1978 the Inspector General Act was passed. This caused a major shift in our priorities and in the utilization of available resources, because the IG Act gave OIG a clearly defined mandate of preventing and detecting fraud, waste and mismanagement in USDA programs, assuring the integrity of the Department's employees, and avoiding large dollar loss in the administration of USDA programs. Notwithstanding, the EEO investigations remained as a significant part of our workload and continued to be handled on a priority basis.

Early in 1982, we decided to explore the possibility of handling these investigations on a contractual basis. At the time of this decision approximately 175 EEO investigations were pending in OIG. Contracting out has proven to be an effective means of handling EEO investigations in that it has resulted in a more manageable workload and has permitted us to more effectively utilize our in-house criminal investigators for our primary mission.

OFFICE OF THE GENERAL COUNSEL

STATEMENT OF DANIEL OLIVER, GENERAL COUNSEL

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you to discuss the Office of the General Counsel's fiscal year 1985 appropriation request.

FISCAL YEAR 1985 BUDGET REQUEST

We have requested $15,865,000, for the fiscal year 1985 budget. This request constitutes a net increase of $559,000 over the adjusted fiscal year 1984 appropriation of $15,306,000. The following explains this increase: an increase of $500,000 to provide appropriated funding for costs associated with legal services provided to the Forest Service for the Land and Water Conservation Fund; an increase of $100,000 for increases in non-salary operating costs; an increase of $110,000 to annualize fiscal year 1984 pay costs; a decrease of $100,000 for equipment purchases that will be completed this fiscal year; and a decrease of $51,000, related to a phased reduction of positions in grades GS/GM 11 through 15.

Although there are some changes in this year's budget, it is fundamentally the same as last year's. No new program initiatives are planned. The total resources made available to OGC (including appropriations and reimbursements) are up $61,000 over last year. We will maintain the fiscal year 1984 staff-year usage of 384 in 1985. We expect that management improvements of the past two years will have a strong impact in fiscal year 1985.

USE OF FISCAL YEAR 1985 BUDGET REQUEST

The most important change in the 1985 budget is our request for $500,000 to provide appropriated funding for legal services provided to the Forest Service for activities funded by the Land and Water Conservation Fund. This Fund has been, for the past 20 years, the principal source of monies to acquire lands in the National Forests. When the Fund was created, the Forest Service agreed to reimburse OGC for legal services related to Forest Service acquisitions. The reimbursement reached a high of $700,000, but is currently estimated to be $500,000 in fiscal year 1984. The proposed budget would replace reimbursable funding with appropriated funding.

The legal work in question is the examination and approval of titles to lands and interests in lands. OGC examines title insurance policies, certificates of title, or abstracts of title obtained from title insurance companies approved by the Department of Justice. The Attorney General has authorized OGC to approve titles, issue formal opinions on titles for the lands received by the United States, and to authorize payments to sellers of property to the Forest Service.

A small percentage of these acquisitions is acquired by condemnation in Federal District Courts because the Forest Service and the landowner cannot agree on the price to be paid for the land. OGC attorneys perform most of the legal work required for these acquisitions.

In fiscal year 1985 we will have 500 to 600 Land and Water Conservation Fund acquisition cases. Our request for an additional $500,000 in appropriated funds will permit us to continue this essential legal service. I understand that the fiscal year 1985 budget request for the Forest Service has an offsetting decrease of $500,000.

We are also proposing a decrease of $100,000 for equipment purchases which will be completed by the end of this fiscal year. The fiscal year 1984 appropriation provided $190,000 to purchase word processing equipment, to improve legal research facilities, and to implement an automated case management system. We are using these funds to begin to put in place an automated case control and casetracking plan, a telecommunications system, and expanded automated legal research capability. We have installed word-processing equipment and now use it fully. This equipment enabled us to increase productivity, cut the time to process paperwork, and increase morale. We believe that it will help us to manage OGC's continually increasing workload.

Funds appropriated to OGC in fiscal years 1982, 1983, and 1984 will enable us to achieve by the end of fiscal year 1984 the full operation of the word-processing, telecommunications, and legal research network at headquarters and all 22 field locations. This allows us to propose the $100,000 reduction. We will use the remaining $90,000 from the $190,000 appropriated in fiscal year 1984 and $60,000 provided in fiscal year 1983 for some additions to these systems and for equipment maintenance and computer services. This course of action will permit us to continue to provide quality legal services and to discharge our responsibility as the legal arm of the Department under the proposed budget.

GROWING WORKLOAD

OGC must respond to the legal needs of the Department caused by expansion of existing programs, creation of new programs, cutbacks in old programs, and policy changes. Our client agencies' demand for legal services has increased rapidly during the last few years. They have created new programs and broadened and made more complex existing programs. Individuals and groups challenge agency actions more frequently in the courts. New legislation, increased litigation, and increased or redirected program activities have intensified the Department's need for legal services.

At the end of the 1978 fiscal year, OGC was responsible for over 11,000 cases of which approximately 8,500 were civil lawsuits. Most of these cases were debt collection matters. At the end of the 1983 fiscal year, this caseload had grown to 34,000 cases of which approximately 32,000 were civil cases. The average number of cases for which each attorney was responsible at any point in time grew from 54 cases per attorney to more than 125 cases per attorney over that five-year period.

During that period our staff-year ceiling went from 343 to only 358. The inescapable result of this dramatic growth in workload and the modest growth in personnel resources was a diminution of our ability to provide the legal services necessary to handle USDA lawsuits, regulation drafting, legislative work, correspondence, documents, and our advisory functions.

CURRENT ACTIVITIES

In the 1984 fiscal year, we have addressed these problems by increasing modestly our staff and using modern technology. We face a particular challenge in our FmHA work. Caseloads are heavy and growing. FmHA borrowers' accounts are under frequent legal attacks and new loan activities require more legal service. The FmHA and OGC have met this problem by providing FmHA State offices with additional OGC field level support. FmHA made this possible by providing 10 staff-years and $600,000 in fiscal year 1983 and 21 staff-years and $1,000,000 in fiscal year 1984.

We are especially concerned about the demands upon our regional and field offices. In fiscal year 1984 we added 15 staff-years for regional offices principally to meet FmHA's need for legal services. Another reason for this increase was an expectation that many or most of the 100 Forest Plans that must be filed by September 30, 1985, will be appealed in administrative hearings and in the courts. Thirteen appeals have already been filed to the four final plans which have been issued. This litigation will tax heavily the legal resources of our offices and may require the reassignment of our existing staff.

The 15 staff-year increase our regional offices received for fiscal year 1984 also enables us to convert temporary legal and support personnel to permanent employees. This increase has been allocated to our offices outside of Washington, D.C. They have been under growing pressures by U.S. attorneys to accept the responsibility for bankruptcy claims and challenges to the Farmers Home Administration loan servicing policies. Under the agreement with FmHA, OGC in 1983 opened seven field offices supervised by existing OGC regional offices. These offices are located in Raleigh, North Carolina; Montgomery, Alabama; Richmond, Virginia; Jackson, Mississippi; Lincoln, Nebraska; Columbus, Ohio; and Stillwater, Oklahoma.

FmHA State Directors have found these new offices helpful. For example, the State Director in Oklahoma wrote, "For the past four months we have been using the services of the Stillwater OGC office after having used the services of the Regional Office in Temple, Texas. Our consensus is that it is the difference between night and day in outstanding services received in Stillwater as compared with the delays caused by working with an out-of-state General Counsel."

We believe that we will be better able to help our clients because of these new offices. Moreover, the workload of existing offices will be reduced by transfer of some of their duties to the new offices.

Our new telecommunications system will be operating fully by the end of this fiscal year. This system will shorten the time to transmit correspondence, legal opinions, briefs, and official government documents between the central and field offices, and among the field offices.

We now have case control and casetracking systems at most locations. Eventually, we will identify our approximately 34,000 cases with the offices with which they were filed. We will index the cases and record their substance, their assignment, and their current status. This information will enable us to track cases assigned to U.S. Attorneys. We will know more precisely office workloads and individual attorney assignments. Moreover, we will be able to identify needed improvements, to appraise attorneys' performance, and to provide information critical to OGC budgets and to USDA performance, especially in the debt management area.

We have installed Lexis and Westlaw in the Washington Law Library. We intend to use automated legal research equipment in Washington for research projects assigned from other OGC locations.

We will study similar programs at the Department of Justice and large private firms. We intend to adapt to our own needs the advances they have made.

Mr. Chairman, that concludes my statement. I would be pleased to answer any questions.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

LAND AND WATER CONSERVATION FUND

You have requested an increase of $500,000 to fund legal services previously funded through reimbursement from the Forest Service.

Question: Why are you requesting permanent funding for these legal services rather than reimbursement as has been done in the past?

Answer: This reimbursable account, which has been in effect for 20 years, was established to cover legal work expected to be needed on a temporary basis. Our experience and our annual review of pending and proposed work have convinced us that this is an established, permanent area of work which should be included in our regular budget.

Question: Has the OGC-Forest Service reimbursable agreement expired?

Answer: An agreement is signed annually by the Chief of the Forest Service and the General Counsel. An agreement is now in effect for fiscal year 1984.

Question: You indicated the amount of the agreement grew over the years to $700,000. Why was this reduced to $500,000 last year?

Answer: The amount provided grew to $700,000 as the purchase program expanded. Also, the amount was affected by the backlog of legal work from prior years. Our annual amount is based on a survey of our field offices and Forest Service regions. We determine from this the work to be done on both existing and proposed purchase cases. For fiscal year 1984 the anticipated, and agreed upon amount, was $500,000.

Question: How much personnel is assigned to legal services through the Fund?

Answer: In fiscal year 1982, we had 15 staff-years assigned to legal services through the Fund. This dropped to 13 for fiscal years 1983 and 1984.

Question: What is the caseload for Forest Service land acquisitions with the Fund?

Answer: The most recent workload measurement report which contains separate report items of legal work on title opinions is for fiscal year 1981. There are two categories which apply, as follows:

	On Hand 10/1/80	Incoming FY 1981	Completed FY 1981	On Hand 9/30/81
Title Opinions	500	4,268	4,300	468
Deeds	14	671	662	23

We note that other than Land and Water Conservation Fund work is included since our report is based on types of legal work rather than specific programs. Since October 1, 1983, we have used a short form in order to decrease our expenditure of staff time in data collection, on the basis that a pattern of work for each of our units was well established by data collected between October 1, 1978, and January 1, 1981. We also point out that this data is based on items of legal work rather than separate cases. We record case data only for matters in some type of litigation.

FIELD OFFICES

Question: What portion of the OGC budget finances your field office operation?

Answer: Approximately 42% of OGC appropriated funds are used to finance our field offices. In addition, we have reimbursable funds which are primarily expended in the field. Of our total budget, approximately 47% goes to the field offices.

Question: What portion of your staff-years are assigned to your field offices?

Answer: Our staff-year ceiling for fiscal year 1984 is 384. Of that total, 190 or 49% is assigned to the field offices. We anticipate no change for fiscal year 1985.

Question: What portion of your caseload is assigned to the field offices?

Answer: Of our caseload presently in litigation, approximately 90% is in our field offices and 10% is in the Washington, D.C., headquarters office. This caseload includes a large number of routine cases resulting from debt collection and bankruptcy issues.

Question: Considering the tremendous demand on your field offices, is your budget request adequate to support staff needs in fiscal 1985?

Answer: Yes. The level of the fiscal year 1985 budget reflects the expected effect of the additional personnel and equipment resources provided for in the 1984 fiscal year budget. Fifteen positions were added to field offices in fiscal year 1984 together with 21 additional positions for the FmHA pilot project. Equipment expenditures were principally devoted to word processing equipment, case control and case tracking systems, and telecommunications. We believe the impact of these additional resources will assure the productive and efficient operation of our field offices, even in the face of a heavy workload.

PILOT PROJECT

In addition to the Washington office and field offices the OGC has some smaller offices throughout the country as part of a pilot project.

Question: Where are these offices located? Are these offices in addition to the 22 field offices?

Answer: The pilot project offices are located as follows:

Raleigh, North Carolina
Montgomery, Alabama
Richmond, Virginia
Jackson, Mississippi
Lincoln, Nebraska
Columbus, Ohio
Stillwater, Oklahoma

They are included in the 22 field office count.

Question: Are these pilot project offices associated only with FmHA? Are you considering expanding the areas to be covered by these offices?

Answer: These offices, except for Stillwater, are solely committed to services to FmHA, the source of their funding. The Stillwater office which was in developing stages prior to the FmHA agreement, is funded 80% by FmHA and 20% by OGC, which reflects the proper allocation of services to other USDA agencies.

There are no present plans to add to or reduce the geographical areas served by these offices.

Question: How many people were hired to staff these offices?

Answer: OGC hired 24 people to staff these offices.

Question: Do you feel OGC was successful in relieving some of the workload of the FmHA offices? To what extent?

Answer: A recent survey of the FmHA offices and the OGC offices involved in the pilot program indicate substantial savings in cost and considerable improvements in handling time brought about by the co-location of FmHA and OGC offices.

The offices under the pilot program had a caseload of approximately 3,343 cases as of December 31, 1983. None of those offices was started prior to March, 1983, and the last of the seven was opened in August, 1983. Subsequent cases filed together with additional transfer of FmHA cases, as these offices became more experienced, have probably increased the total to somewhere near 5,000 cases or approximately one-fifth of the estimated total FmHA cases. Corresponding decreases in the workloads of the Regional offices formerly serving these States is also noticeable.

As these offices become more efficient and are assigned some of the other more complex FmHA programs, we expect that a definite positive impact in reassigning the caseload will become more measurable.

LOANED POSITIONS

Question: Do you still utilize "temporarily loaned positions" in some of your field offices? Please describe.

Answer: No, we do not. The additional staff-years associated with FmHA program servicing by our Regional offices were transferred from the FmHA and are a part of our ceiling for fiscal year 1984 and fiscal year 1985.

CONGRESSIONAL TESTIMONY

Question: Does OGC still review all testimony presented to Congress?

Answer: Yes. While OGC's prior role in handling clearance of testimony within the Department and with the Office of Management and Budget has been reassigned to the Office of Governmental and Public Affairs, OGC still reviews all non-budget testimony for legal sufficiency.

Question: How much of your time is devoted to reviewing congressional testimony?

Answer: Approximately seven-tenths of one attorney staff-year and approximately one-tenth of one non-professional staff-year are devoted to this function.

ATTORNEYS

Question: Please explain your attorney turnover for fiscal year 1983 and thus far in 1984.

Answer: Seventeen attorneys left OGC in 1983. Eight left for other government jobs, five went into private law firms, one retired, one returned to school, one left for personal reasons, and one temporary employee left because her appointment expired.

Thus far in fiscal year 1984, we have lost ten attorneys. Four left for other government jobs, one went into a private law firm, two retired, two relocated, and one decided to quit working and stay home.

Question: Are you still having problems in obtaining qualified/experienced attorneys?

Answer: Our recruitment of entry level attorneys, at GS-11 is satisfactory, inasmuch as we are definitely operating in a "buyers" market. Recruiting experienced attorneys is more difficult, however, because the salaries we hire at, grade levels GS-12-14, are not competitive with private firms or with other U.S. Government Departments that may hire at higher grade levels. Promotional possibilities are also limited. To avoid a shortage of experienced professionals we are developing training and incentive programs which we hope will encourage our attorneys to stay with us.

OGC RESPONSIBILITIES

Question: What percentage of OGC staff time is spent on Forest Service and what time is spent on FmHA?

Answer: During fiscal year 1983, 17 percent of attorney staff time was spent on Forest Service work and 29 percent of such time was spent on FmHA work.

Question: How many cases has OGC handled in regard to FmHA in 1983 and so far in 1984. What role does your office play in foreclosure proceedings?

Answer: Our 1983 reports show as follows:

	FmHA Cases
On hand October 1, 1982	19,672
Received 10/1/82 - 9/30/83	18,422
Available during FY 1983	38,094
Closed during FY 1983	10,721
Pending 9/30/83	27,373

In addition to cases closed, legal work was performed on a substantial number of pending cases.

Through March 31, 1984 these numbers are as follows:

	FmHA Cases
On hand October 1, 1983	27,373
Received 10/1/83 - 3/31/83	11,027
Available through 3/31/84	38,400
Closed 10/1/83-3/31/84	8,191
Pending 3/31/84	30,209

After FmHA has exhausted its attempts to collect delinquencies and obtain payments that keep an account basically current, it sends a docket to our field office. That docket is reviewed to determine whether foreclosure is appropriate. On many occasions, our field office attorneys discuss data and procedures with FmHA personnel to assure the docket is complete.

When a decision has been made that foreclosure action should be pursued, our field office either refers the case to the United States Attorney for judicial foreclosure, or returns the docket to FmHA for nonjudicial foreclosure. Our offices also provide assistance to either the United States Attorney or FmHA as requested.

Question: How much of your work is delegated to you by the Justice Department and the U.S. Attorneys' offices?

Answer: Our offices prepare, in many instances, the legal documents to be used by United States Attorneys, or Department of Justice attorneys, in cases we refer to them. A high percentage of these cases are on FmHA matters. Most of our offices handle court activities to some extent, at the request of such attorneys, due either to special legal problems or to time and work constraints. Current litigation in which this is prevalent is the nationwide extent of foreclosure issues in which procedural rights of appeal prior to foreclosure are being challenged. There are approximately 50 cases, some of which are on review in Courts of Appeals.

Some OGC offices either substantially or completely handle litigation for a U.S. Attorney. One particular area in which this is done is in bankruptcy cases.

PAYMENT-IN-KIND PROGRAM

Question: How much of your resources were used to provide legal services for the PIK program in fiscal year 1983 and so far in 1984?

Answer: Approximately two staff-years were used to provide legal services for the PIK program in fiscal year 1983 and less than half of a staff-year has been used so far in fiscal year 1984.

Question: Are you still involved in PIK-related litigation?

Answer: Four PIK-related lawsuits are currently pending. One involves the issue of whether the statutory $50,000 payment limitation is applicable to payment-in-kind compensation received by producers. The other lawsuits challenge the type of rice made available as PIK compensation to some producers, the Department's refusal to establish a wheat acreage base for a producer so he could participate in the PIK program, and the Department's disapproval of the reconstitution of a producer's farm for the purpose of PIK participation.

Question: Was most of the PIK workload handled by the field offices?

Answer: No. Practically all of the PIK workload was handled by the Washington office.

FEDERAL CROP INSURANCE CORPORATION

Question: How much of your workload is related to Federal crop insurance? What is the cost associated with this?

Answer: In fiscal year 1983, this office devoted approximately five staff-years (two in Washington, one in the Kansas City Regional Office, and two in other Regional offices) to the provision of legal services to FCIC, at a cost of approximately $210,000.

Question: Please give some examples of the type of cases you handle for FCIC.

Answer: A great deal of the litigation filed against FCIC involves insured producers complaining of the refusal of the Corporation to pay insurance indemnities. In many cases this refusal is based on a determination by FCIC that the loss was caused by the use of poor farming practices. FCIC is also involved in a number of bankruptcy actions where the Corporation has a claim against the bankrupt for unpaid insurance premiums. In addition, there is currently a relatively small number of lawsuits that challenge provisions of FCIC's insurance contracts and seek to have the contracts reformed.

Office of Rural Development Policy

Statement of Willard (Bill) Phillips, Jr., Director

Mr. Chairman, it is an honor for me to appear again before this Committee. My purpose today is to give an accounting of our stewardship in the Office of Rural Development Policy, to report on new initiatives we hope to take in the next fiscal year, and to request appropriations for our continued service to rural America.

The mission of this Office is to serve as an advocate for rural America, to identify its most important needs, and to suggest the most effective means of meeting those needs.

But we do not and cannot bear the sole responsibility for ensuring rural progress. Nor does the Department of Agriculture, nor even the Federal government.

Rural Development must involve a partnership of all these institutions with State and local governments and with private enterprises as well. Recognizing that any policy is only as good as its implementation, the Office of Rural Development Policy has undertaken to help build this broad partnership.

Our work involves evolution rather than revolution, and nothing of lasting value to rural America can be accomplished overnight. But we have spent the last two years exploring the problems and potentials of rural America, and I can report today significant progress in five major areas of concentration.

Rural Development Strategy

Central to our work is the mandate of the Rural Development Act of 1980 that a strategy be devised by the Department of Agriculture as a framework for all Federal rural development efforts, as an agenda for comprehensive action, adaptable to change as conditions change.

Our Office was created by the Secretary of Agriculture in 1981 to assume this strategic responsibility, and last year, we submitted to the Congress our first strategy document, entitled "Better Country: A Strategy for Rural Development in the 1980's."

This document was the product of extensive consultation with rural experts throughout the country, and it was prepared with the assistance of a National Advisory Council on Rural Development Policy appointed by the Secretary and comprising 25 public and private leaders of rural America.

Better Country found that rural America had been transformed in the decade of the 1970's from a region in decline to a realm of rapid economic and population growth. It also found that with this new growth had come new demands on facilities and services in rural communities, and new requests for technical and management assistance to rural governments.

Better Country also suggested a new role for the Federal government in rural development--one of support for rather than direction of State and local development efforts--consistent with the President's philosophy, and it recommended practical policy initiatives ranging from facilities improvement to rural credit.

We are now nearing completion of the strategy report for FY 1985. We continue to build on the policy foundation that was laid with last year's strategy. We have expanded our analysis of emerging rural issues and anticipate the delivery of the new strategy report to the Congress.

Without dwelling on the specifics of the forthcoming strategy here, it is worth noting that the strategy process itself has already accomplished two major objectives:

-- It has raised nonfarm rural issues to a much higher level of visibility and importance within the Department of Agriculture.

-- And it has revealed an extraordinary interdependence between the success of over a million American farms and the growth of the nonfarm rural economy. As Secretary Block observed last year, "the future of farms and the future of rural communities are inextricably linked."

Because rural America's economic and population growth have outpaced urban America's for the past ten years, it may also be said that there is a similar strong link between the future progress of rural America and that of America itself.

A strategic approach to rural development, then, is more critical today than perhaps ever before.

Leadership

In the belief that rural development must be primarily the work of rural Americans themselves, the Office of Rural Development Policy has tried to keep rural leaders in both the public and private sectors informed of new ideas, trends, and services that can help them do their jobs better.

-- Secretary Block met last year with leaders of 25 national rural development organizations to discuss their priorities and problems and to seek ways of improving intergovernmental cooperation in rural development. This meeting in Des Moines, Iowa, which followed the Secretary's "Agriculture Summit" meeting with a similar national conference of farm organization leaders, was a dramatic demonstration of the unprecedented policy priority that nonfarm rural development as well as Agriculture receives from this Administration.

-- In cooperation with the Rural Governments Coalition, the Office of Rural Development Policy sponsored a series of training conferences for rural government officials in 1983. The sessions addressed such issues as financial management, liaison with State governments, managing natural resources, and transportation of hazardous wastes.

-- We have joined with the National Trust for Historic Preservation in a program to restore the small towns of rural America as centers of new commercial growth. The "Main Street" program has helped restore the architectural beauty, commercial activity and tourism interest in more than 60 communities in six States, attracting more than $125 million in private investment and helping start more than 450 new downtown business ventures.

-- We have established a study group to find better ways of helping small rural business firms enter the export market through Export Trading Companies and other trade promotion programs such as those sponsored by the Small Business Administration, the Export-Import Bank, and the International Trade Administration.

-- We have co-sponsored an experimental "rural entrepreneurship" project in southeastern Oklahoma, designed to create new small business enterprises in rural America through the "homegrown" development of new products and technologies.

-- We have co-sponsored a major seminar with historically Black rural colleges, seeking ways to improve minority participation in rural development and economic progress.

Coordination

Closely allied with these leadership functions has been our work to improve coordination of rural development activities at all levels and in all agencies of government.

-- A working group on rural development has been established within the Department to coordinate our rural development efforts. One aspect of this group's coordination efforts includes a rural "needs assessment" prepared by the State-level Food and Agriculture Councils throughout the Nation. These State FACs identified priority rural issues and procedures for addressing them. In response to these priorities, the working group has developed, and is implementing, major components of the needs assessments.

-- We have encouraged other Federal Departments and agencies to increase rural participation in their various programs, and we are pleased to report that such increased participation is very much in evidence today. The Department of Education last year devised a special policy for rural education. The Department of Housing and Urban Development has increased rural participation in the Urban Development Action Grant and Community Development Block Grant programs. The Small Business Administration and the Export-Import Bank, along with our office, have begun outreach programs to inform small businesses in rural America about the availability of financing for export sales. The Department of Labor has made rural job training a priority in its administration of the Job Training Partnership Act. Resource Conservation and Development Districts across the country have contributed to the rural development strategy formulation process through a regular series of meetings, mailings, and other contacts.

-- The Office of Rural Development Policy has sponsored the first rural application of a new "negotiated investment strategy" concept which brings local, State, and Federal officials to a negotiating table as equal partners and commits them to specific financial and management responsibilities in a single community's development plans.

Research and Policy Development

In the course of our effort to define the conditions, problems and potentials of rural America more accurately so that we may respond to them more effectively, we have found that much of the statistical data collected by government agencies does not provide a level of specificity for rural areas that is necessary for making sound policy and financial judgments. We have taken steps to fill this information gap.

Since this Office is the principal advocate for nonfarm rural development in the Federal government, we have also tried to make certain that this information is appropriately considered in all relevant policymaking processes.

-- In cooperation with the Economic Development Division of USDA's Economic Research Service, we have undertaken a project to provide a clearer statistical view of rural America by suggesting changes in the collection of data for four major research sources: The Current Population Survey, the Census of Governments, the Survey of Income and Program Participation, and the Annual Housing Survey.

-- The U.S. Census Bureau, with assistance from this Office, has agreed to prepare a publication providing local government leaders with statistical support for Federal and State grant applications.

-- In conjunction with the Advisory Commission on Intergovernmental Relations and the International City Managers Association, we have agreed to support the collection of data on regional governments and the preparation of a report on that data to replace a Census Bureau publication which had been cancelled.

-- We have commissioned several research projects and issue papers describing specific conditions in rural America and prescribing solutions to specific problems.

-- We have worked closely with the Rural Sociologist Society to match its excellent research on rural conditions with policy initiatives for improving those conditions.

-- We have sponsored a national rural affairs symposium at Wingspread, Wisconsin, in collaboration with the Rural Governments Coalition.

-- We have participated in a seminar on non-point water pollution, sponsored by the North American Lake Management Society and underwritten the publication of its proceedings.

-- We have monitored, and continue to monitor, the budgetary and legislative proposals of the Department of Agriculture and of other relevant Federal agencies to assess their impact and usefulness in the development of rural communiuties.

Advocacy and Awareness

The final point of major focus for our Office is in calling the attention of all concerned to the problems and the promise of rural America.

As we have seen, the importance of the rural economy as a stable foundation for the American farmer and as a major contributor of new jobs for the nation should not--must not--be overlooked or understated.

We are doing our best to reach out to all the rural development constituencies in the country, to let them know that we want to work with them instead of their working for us. In addition to an active schedule of rural development conferences in which our office participates, we are producing the periodical Rural America Review and a Rural Resources Guide.

Rural America Review will disseminate information on rural development and facilitate communication among rural leaders at all levels of government and in the private sector. The Rural Resources Guide is an easy-to-use reference designed for rural officials to help them gain access to needed financial and managerial assistance from public and private sources.

We have created an extensive network of committees and task forces to make sure that rural Americans have a real voice in rural policy in this country. Because of their participation in the process, we think we have proposed some constructive new approaches to rural development.

1985 Budget Request

To continue this work for progress in rural America, we are asking today for for an appropriation of $2,423,000 for Fiscal Year 1985. This represents an increase of $406,000 over the fiscal 1984 level.

Our office would devote $309,000 of these additional funds to expand its research on emerging rural issues, administrative and regulatory barriers to rural development, and the cost-effectiveness of current rural development efforts. This portion of the requested increase would also underwrite and support innovative rural development efforts. Some of last year's projects that have benefitted rural America are: The Rural Enterprises Demonstration project, Main Street, and the Rural Governments Training Conferences. These and similar projects which we have sponsored have offered promising results.

Another $50,000 of the requested new funds would cover nominal increases in routine administrative expenses--the cost of services, supplies, materials and equipment--due primarily to inflation.

To annualize and restore certain pay costs absorbed by the Office in Fiscal 1984, an additional appropriation of $53,000 is requested.

This year's appropriation request also reflects a decrease of $6,000 associated with a phased reduction of employees in grades GS/GM 11-15.

Finally, Mr. Chairman, let me thank you and the members of this Committee for your genuine and long-standing commitment to rural development in America. Thanks to you and the people of rural America, we're making progress, and I am confident there is much more in store.

I will be happy now to respond to any questions the Committee may have.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

GENERAL

Question: The Office of Rural Development Policy provides leadership and coordination to a national rural development effort by integrating the policies and activities of Federal departments and agencies that impact on rural development. It is responsible for formulating the national rural development strategy and is the primary mechanism for carrying out the Department's rural development activities. In fiscal year 1983, it spent $2 million and it plans to spend $2 million in fiscal year 1984. For fiscal year 1985, the Department is asking for $2.4 million. What benefits has or will this office provide as a result of these expenditures?

Answer: ORDP supports the Secretary of Agriculture who is the voice, in the national government, for 60 million rural people. We help the Secretary do several important things. One of our roles is to see to it that in proposing and reviewing legislation and administrative policy those who are making decisions remember rural America and its special nature; the urban model people tend to have in their minds is often not applicable to rural settings. We encourage and focus research on rural questions or at least the rural aspect of national questions. We help create forums for rural leaders, at all levels, to meet, develop, and articulate their explicitly rural viewpoints. We encourage a variety of activities designed to help small places get better information. A good part of our time is spent calling to the attention of rural leaders the fact that the Federal Government can be made more responsive.

We also produce the rural strategy, called for by law, which ties many of those things together in a single document. That strategy is the game plan for approaching and solving problems in rural America.

These general approaches have produced some very specific results.

We have encouraged other Federal departments and agencies, for example, to increase rural participation in their various programs, and that increased participation is very much in evidence today.

The Department of Education last year devised a special policy for rural education. The Department of Housing and Urban Development has increased rural involvement in the Urban Development Action Grant and Community Development Block Grant programs.

The Small Business Administration and the Export-Import Bank, along with our office, have begun outreach programs to inform small businesses in rural America about the availability of financing for export sales.

The Department of Labor has made rural job training a priority in its administration of the Job Training Partnership Act.

In cooperation with the Rural Governments Coalition, the Office of Rural Development Policy sponsored a series of training conferences for rural government officials in 1983, concentrating on financial management, liaison with State governments, managing natural resources, and other important issues.

We have joined with the National Trust for Historic Preservation in a program to restore the small towns of rural America as centers of new commercial growth. The "Main Street" program has helped restore the architectural beauty, commercial activity, and tourism interest in more than 100 communities in 11 states. In the first 27 communities participating in this program, more than $127 million in private investments were attracted and 956 new downtown business ventures were started.

We have co-sponsored an experimental "rural entrepreneurship" project in southeastern Oklahoma, designed to create new small business enterprises in rural America through the "homegrown" development of new products and technologies.

We have sponsored the first rural application of a new "negotiated investment strategy" concept which brings local, State, and Federal officials to a negotiating table as equal partners and commits them to specific financial and management responsibilities in a single community's development plans.

And we have pursued an extensive outreach program ranging from rural conferences to a Rural America Review newsletter, aimed at keeping rural leaders in both the public and private sectors informed of new ideas, trends, and services that can help them do their jobs better.

Perhaps most importantly, we believe that all of this activity has raised nonfarm rural issues to a much higher level of visibility and importance within the Department of Agriculture.

Secretary Block met last year with leaders of 25 national rural development organizations to discuss their priorities and problems and to seek ways of improving intergovernmental cooperation in rural development.

This meeting, in Des Moines, Iowa, which closely followed the Secretary's Agriculture Summit meeting with a similar national conference of farm organization leaders, was a dramatic demonstration of the unprecedented policy priority that nonfarm rural development as well as production agriculture receives from this Administration.

And we have tried to make it clear to the people of rural America that we value their advice and counsel, and that we intend to work for them rather than the other way around.

Question: Do these benefits justify the costs?

Answer: I'm absolutely convinced they do. There is no precise way to measure benefits, of course, but the cost seems very modest in light of the special needs of rural people and what we have been able to accomplish for them.

Question: What would we lose if we cut or dropped the funding for this Office?

Answer: I've briefly described our general mission and some of our accomplishments. I believe our endeavors are critically important for rural people all over the country. In passing the Rural Development Acts of 1972 and 1980, the Congress recognized the importance of giving coherent attention to the special needs and problems of the 60 million rural Americans. This Office is the principal tool the Secretary has to carry out the leadership and coordination mandates of those Acts.

1985 BUDGET REQUEST

Question: Your fiscal year 1985 budget request is more than $400,000 over your 1984 level. If your budget is frozen at the 1984 level, what effect will this have on the Office of Rural Development Policy? Please explain in some detail how this reduction would be absorbed?

Answer: We would have to reduce considerably the amount proposed for research on rural development issues, for providing training to local officials, and for disseminating information to them about rural development initiatives.

When the Office of Rural Development Policy was established, we began to put together concrete policy proposals for rural America focusing on needs expressed by the rural public. We quickly found that the problems of rural development are substantial and require a substantial effort to tackle them effectively. Rural policies require sophisticated information. They involve extensive and intensive coordination and costs often must be incurred now for benefits that will become apparent only in the distant future.

The increased funding will be used to gather and evaluate detailed information on local conditions in rural areas and to empirically test the practicality of some of the ideas, policies, and strategies that are brought to our attention. Specifically, we will use this money to help improve the quantity and quality of data on rural America; identify and evaluate emerging rural issues and needs on an ongoing basis; encourage initiatives that strengthen the local and State government role in rural development; and encourage initiatives that help support the increasingly interdependent farm and nonfarm rural economies. Without the increased funding, we will have to forego many activities in this area.

The balance of the funding increase would affect projected cost increases in other expense items so that our current level of effort would be maintained. A reduction would curtail these other support items.

RURAL DEVELOPMENT STRATEGY

Question: It is my understanding the first update of the strategy is being prepared. When will this new report be made available to Congress? Was it not due in January?

Answer: The strategy was released on April 16.

Question: When the first strategy document, Better Country, came out, it was rather controversial. Do you expect this update to have the same reception?

Answer: Since the strategy was released, we have received very few negative comments and we do not expect many.

Question: What steps have you taken or groundwork have you laid to prevent that type of reaction?

Answer: In the process of preparing the strategy, we solicited suggestions from a wide range of individuals and organizations in and out of the Federal Government. We have also briefed many people in Congress or on congressional staffs on our work and the strategy. No document can be expected to please everyone and I do not think preparing a strategy that does that is our job. The strategy is a good strong statement addressing many important rural development issues, and we expect it to be generally received in that spirit.

Finally, we are inclined to look at criticism--constructive criticism--in a positive way. We believe it will be helpful in making future policies stronger and better.

Question: How far along are you on the implementation of the strategy?

Answer: A work plan for implementing the strategy has been developed and we are beginning to work on the first steps. In this process, we anticipate working with the Department's Rural Development Working Group, a number of government agencies, and some outside groups, depending on the type of recommendation. In some cases ORDP will make the major effort; but in others, a different USDA agency may take the lead. Whatever the recommendation, a concerted effort will be made to encourage as much cooperation among the various organizations involved as possible.

Question: What new legislative proposals have you developed in the last year?

Answer: We have developed no new legislative proposals.

Question: Can you now tell us the total cost of the original strategy? What is the cost of the update?

Answer: The exact cost of the strategy is not possible to estimate precisely. If you mean writing and printing the document, I would say a small fraction of our total budget. If you mean the work of this staff in developing and carrying out the strategy, obviously the cost would be much more. The answer would be the same for the update. If you mean what is the cost of implementing the strategy, you must remember the rural development strategy is a locally guided process designed to create employment opportunities, foster more stable and diversified local rural economies, improve conditions in rural communities, and provide a mechanism for guiding and coordinating the efforts of Federal, State, and local agencies and/or organizations concerned with rural development.

The Rural Development Strategy report describes the process at a particular point in time. It examines problems, needs, and resources and sets forth the goals of the rural development program, together with the strategy devised to achieve these goals.

RURAL VS. URBAN AMERICA

Question: Over the past ten years or so, rural America's economic and population growth have outpaced urban America's. There have been some indications or reports lately, however, that the trend is more toward urban. Have you found this to be true and what effect would this have on the future progress of rural America or the future of rural communities?

Answer: We are seeing mixed evidence about the growth of rural vis-a-vis urban areas. There has been some evidence that the population shift from urban to rural areas has slowed down, but the economic recovery of the past few years appears to be more pronounced in rural areas.

Whether the growth of rural America, in the aggregate, is slightly ahead or behind that of urban America, we believe that the diversity of its rural areas masks some problems.

America's rural areas are indeed diverse. Some are showing remarkable economic growth but lag in facilities (although a recent study suggests, overall, that facilities are less a problem than many people had suggested). Some have continuing problems of decline--people moving out, an aging population, a poor employment base, and a large poverty population. The solutions to these problems, of course, vary. And local people have to set their own priorities and provide leadership.

However, rural areas have two basic features that are unique to them and give them special needs--isolation because of distance between population centers, and problems related to small scale.

Problems that arise in any part of America often must be treated differently when they occur in rural areas. Programs for addressing such problems as poverty, unemployment, or pollution require different delivery systems if they are to be successful in rural America. In fact, the delivery of all government programs must focus on the special rural conditions. Rural schools cannot just be smaller versions of urban schools. The provision of water and sewer services cannot copy the very large centralized urban systems.

Our rural development strategy takes into account rural diversity and the difference between governmental service delivery in rural and urban settings. This Administration has been very successful in establishing rural specialists in such agencies as the Small Business Administration and in making special efforts in the Departments of Labor and Housing and Urban Development to improve their programs for rural jurisdictions. Much work remains to be done of course, but we are on our way and look forward to continuing the work.

RURAL RESOURCES GUIDE

Question: Is this a new periodical?

Answer: The Rural Resources Guide is a new publication called for in Better Country, but, it is not a periodical. In the past, other organizations have produced publications of a similar nature which now contain dated information. This Guide is the first, to our knowledge, to present sources of national-level technical and financial assistance from both the public and private sectors and is aimed specifically at rural leaders.

Question: What is the cost of producing this document?

Answer: The total production cost will be about $90,000 including printing, staff time to gather the data, and so forth.

Question: Is the entire cost of this being borne by ORDP?

Answer: ORDP is assuming the entire cost of producing the Guide.

Question: Will you charge for this or will it be provided free of charge?

Answer: Copies of the Guide will be available for sale to the public from the Superintendent of Documents at a cost of somewhere between $7.50 and $9.00.

Question: To whom will this be helpful?

Answer: This publication will be particularly useful in assisting local and State officials and other rural leaders in identifying available resources for their communities. It will describe the types of assistance from each organization and the office and telephone number to contact for more information.

RURAL AMERICA REVIEW

Question: As I understand, this newsletter will be targeted to rural development groups and individuals. Is this a new publication?

Answer: Yes it is.

Question: Is it done in-house or contracted out?

Answer: The major portion of the newsletter is being done in-house. As required by OMB Circular A-76, we are using commercially available sources to provide certain products and services, such as printing and reproduction services--when the cost of contracting out is more cost effective than in-house sources. The responsibility for the content of the newsletter is assumed by ORDP.

Question: What is the cost?

Answer: We estimate that the cost of the newsletter will be about $11,600 per year.

Question: Will you charge for this publication?

Answer: During this introductory year the newsletter will be distributed without cost.

WORKING GROUP ON RURAL DEVELOPMENT

Question: You indicate in your statement that a working group has been established within the Department. Please provide the names of the individuals who make up this group and the agencies they represent.

Answer: The names and agencies of members of the USDA Rural Development Working Group are:

L. James Cherry, Jr.
Assistant Deputy Administrator
Program Operations
Farmers Home Administration

Kenneth L. Deavers
Director
Economic Development Division
Economic Research Service

J.W. Ellis
Director
Congressional and Public Affairs
Federal Crop Insurance Corporation

Raymond R. Hancock
Director
State Statistical Division
Statistical Reporting Service

Robert E. Leard
Administrator
Food and Nutrition Service

William R. Seymour
Program Leader
Cooperative Development Division
Agricultural Cooperative Service

John A. Vance
Staff Director
Area Planning and Development
Forest Service

Frank Lushe
Program Advisor
Rural Electrification Administration

John McCarthy
Deputy Director
Office of Intergovernmental Affairs

Ruth McWilliams
Economist
Office of Transportation

Wilson J. Parker
Director
Rural Development
Soil Conservation Service

Merrill (Pete) Petoskey
Deputy Administrator
Natural Resources and Rural Development
Extension Service

Richard G. Stuby
Sociologist
Cooperative State Research Service

Larry Walker
Director
Program Analysis Divsion
Agricultural Stabilization and Conservation Service

Question: Please list the accomplishments of this group.

Answer: USDA agencies with activities that support the Department's rural development mission coordinate their efforts through the USDA Rural Development Committee and its Working Group. The Working Group, which I chair, designed a comprehensive work plan during 1983 that is responsive to *Better Country*. The work plan, to be implemented during 1984, integrates the policy recommendations of *Better Country* with needs assessments prepared by State Food and Agriculture Councils--USDA officials at the highest State level--as part of the strategy development process. Thus, Better Country has served as a useful policy framework to formally guide the Department's coordinated rural development effort at the Washington level through the Rural Development Committee Working Group and at the State and local levels through State and local Food and Agriculture Councils.

The work plan has three major sections. They are improving rural facilities and services, and rural housing; assisting rural governments; and assisting in improving the rural economy through private sector initiatives and job creation.

Within these three broad areas, interagency task groups are meeting to coordinate initiatives on subjects such as rural transportation, housing technology, exports, and direct marketing.

The USDA Rural Development Committee Working Group has been a focal point for planning four regional conferences for local officials that followed-up on the Wingspread, Wisconsin 1982 conference on local governments.

The Working Group organized a coordinated USDA presence at the National Association of Towns and Townships' national convention held in Washington in 1983. Also in 1983, the Working Group members briefed leaders of the Future Farmers of America Building Our American Communities Program when they met in Washington.

Working Group members were instrumental in reviewing agency entries for the Rural Resources Guide, now in production. They are involved in the "Main Street" project and several other initiatives as well.

In summary, whenever an interagency coordinated approach to rural development issues is required, the USDA Rural Development Committee Working Group is in place and ready to work.

Question: How long has it been in existence? How often does it meet?

Answer: The Working Group was established in April 1982. Regular business meetings are scheduled quarterly and additional special meetings are convened as necessary.

TRAVEL

Question: Your budget for travel expenses has increased from less than $20,000 to $53,000 for 1984 and to $64,000 in 1985. Why has there been this tremendous increase?

Answer: First, our actual fiscal year 1983 travel costs were about $31,500. An error was made in recording certain transactions in our accounting system. This error was not uncovered until after the fiscal year 1983 data had been submitted to Congress.

The reasons for the travel increases include an allowance for increase in air fares, hotel rates, and other travel-related fees; the anticipation that we will use more staff years--in fiscal year 1983 we left six years of staff effort unused that we expect to utilize in fiscal year 1984 and fiscal year 1985--and this will increase the amount of travel; and finally, more people and groups are hearing about our work and they are seeking to become involved in it. Many of these groups do not have an office or staff here in Washington. They are located in the small towns of rural America and it is important to increase our level of effort by reaching out to more of them.

Question: Please provide for the record a breakout of ORDP's travel expenses for fiscal year 1983 and thus far in fiscal year 1984.

Answer: The actual travel expenses for fiscal year 1983 were $31,500, and as of April 30, we had spent approximately $21,000 of fiscal year 1984 travel funds.

Question: Do you plan to utilize the entire $53,000 in 1984?

Answer: At this time we seem likely to spend slightly less than the $53,000 appropriated for fiscal year 1984.

Animal and Plant Health Inspection Service

Statement of B.W. Hawkins, Administrator

Mr. Chairman, members of the Committee, I am happy to have this opportunity to appear before you to discuss the Animal and Plant Health Inspection Service (APHIS) Fiscal Year (FY) 1985 budget proposals. I have with me my Associate Administrator—Mr. James O. Lee, Jr.; our Deputy Administrators for Veterinary Services—Dr. John K. Atwell, for Plant Protection and Quarantine—Mr. Harvey L. Ford, and for Management—Mr. Larry B. Slagle; and the Director of the Budget and Accounting Division—Mr. Samuel V. Ladd. They are prepared to respond to technical questions as necessary.

As I complete my first year as Administrator of APHIS, I have an even greater appreciation for the job Congress and USDA must do, weighing the individual concerns of the people we serve while maintaining a larger perspective on our nation's economic well-being. As a rancher for many years, as well as a member of several industry organizations, I had strong opinions about how APHIS should serve the producers of this country. I brought that perspective to my new position, but I have also gained a broader view of APHIS responsibilities. APHIS, like other agencies, faces the challenge of developing realistic budgets which assure the successful continuation of our most important services while holding the line on spending. I believe that this budget meets the challenge.

APHIS Commitments

Our budget provides the details of the APHIS workplan for FY 1985. It also reflects a continuing philosophy which transcends year-to-year operations. In APHIS, we have three major commitments to fulfill. The first is to accomplish our objectives quickly and efficiently. We want to be an agency that delivers the results we are aiming for. APHIS has always been that kind of organization, and I intend to see that we maintain that high standard. A second major commitment is to focus our role on clearly necessary Federal responsibilities. If we expect the States and industry to share the costs of program activities, APHIS has to keep its end of the bargain by providing those services only a Federal agency can provide. The third commitment is to work with the States and industry as an equal partner in the business of providing agricultural protection. As a rancher, I am particularly interested in this. It is my goal to work with our constituents, not dictate to them. Of course, we have to do all of these things within the realities of our times. This means we must also contribute to the governmentwide battle to hold the line on Federal spending so that the best method of helping the farmer—building a strong economy—can be achieved.

Program Successes

I would now like to talk about what we have done to meet these commitments. First, I want to point out some outstanding successes—results delivered by APHIS programs. We have added to our list of pests and diseases eradicated from the United States which, since 1970, include Venezuelan equine encephalomyelitis, screwworm, hog cholera, exotic Newcastle disease, oriental fruit fly, and Mediterranean fruit fly (Medfly).

Last year we reported the eradication of the Medfly outbreak in California. A year of intensive followup surveillance has confirmed the success of the cooperative State-Federal effort to eliminate the pest from the United States. This was the tenth time since 1929 we have wiped out this pest before it caused significant damage. American citrus producers are again free of the dangers of Medfly, but its existence in so many areas, including Hawaii, southern Mexico, and Central America, requires us to keep up our guard against this ever present threat.

Another landmark achievement is the eradication of African swine fever (ASF) from the domestic swine population in Haiti. This multi-national effort, conducted under perhaps the most difficult conditions any animal disease program has ever faced, has eliminated ASF from dangerously close proximity to the United States. A disease which might have been a short boat ride from Florida and Puerto Rico, with the potential to cause billions of dollars in losses for the pork industry, has now been eliminated from the Caribbean Basin.

We are very close to our current goal in the Mexican screwworm program. We are now dropping sterile flies at the Isthmus of Tehuantepec, where we will establish a barrier zone to prevent the northward movement of the screwworm. Barring complications from the weather or unexpected biological developments, we are on target to reach our goal by the end of 1984. It is an achievement we are very proud of and one in which I am sure you share, for without your support it would not have been possible.

The Federal Role

Our second major commitment, as described above, is focusing on appropriate Federal roles. We have continued to examine our mission and the essential functions of agricultural protection. We need a strong Federal presence in the areas of surveillance - constant vigilance for disease and pest outbreaks and determining where the problems are; enforcement - strictly enforcing quarantine and other regulations which prevent the entry or spread of disease and pests, particularly in interstate commerce; and exotics - preventing the entry of diseases and pests into the United States and responding quickly if outbreaks should occur. This last area, exotics, is the number one Federal priority and we have increased our emphasis accordingly. In the agricultural quarantine inspection (AQI) program, we have met the demands of more international air passenger traffic and new inspection systems at our major airports by shifting some resources from the more stable maritime inspection activities to airports. We are now planning, in conjunction with other Federal inspection agencies, to put in place proper safeguards to handle the large influx of travelers and animals to the Olympic games in Los Angeles and the World's Fair in New Orleans.

Last year we accorded full program status to our international plant disease and pest control operations. This year, we are doing the same for our animal health effort. We are building a small but vital international network of both plant and animal health experts who will serve to extend our first line of defense from our borders to the rest of the world. Also, these specialists are working to facilitate U.S. exports by acting as liaisons with foreign animal and plant health officials. I believe that through this effort we can and will do more to open up markets such as China by seeking mutually acceptable disease and pest prevention requirements.

We have made great strides in our surveillance activities. The cooperative national plant pest survey is now in full operation, with 44 States participating in 1983 and the remaining States expected to join soon. We are now developing a national animal disease surveillance system in cooperation with the U.S. Animal Health Association. This system will substantially improve our knowledge of animal disease and pest distribution within the United States.

In the enforcement area we have several major initiatives. We have strengthened our interstate inspection of livestock. We propose to fund it entirely in one budget line item, rather than funding part of it through specific eradication and control programs, a move in keeping with our goal to clearly focus on Federal roles. We have implemented new regulations to control the movement of outdoor household articles from gypsy moth infested areas. These regulations provide a sound program to prevent gypsy moth spread, include Federal-State-industry-citizen participation, and do not place a big financial or regulatory burden on the government or individual. Finally, within the last year, we have implemented the civil penalties legislation which was enacted by the 97th Congress. With this new authority, we are able to seek fines through administrative procedures for violations of program regulations. The U.S. Attorney's offices had declined to prosecute violators and had dismissed many violations due to high litigation costs.

Cooperation with States and Industry

I am proud of our efforts to work more closely with the States and industry and the positive response we are receiving. The results are already apparent in a number of programs. For example, we are now working with cotton producers in North Carolina and South Carolina to eradicate the boll weevil from those two States. We are providing the technical expertise and 30 percent of the program's cost while the producers are paying the other 70 percent. We anticipate successful completion of this program in FY 1985. This is a classic example of what we want to achieve in domestic control and eradication programs, in which APHIS fills the role States and industry cannot while the industry which benefits from the program contributes significantly to the cost. A similar program is now underway on the animal health side, where the National Pork Producers Council is contributing to pseudorabies pilot projects now underway in five States.

We are working with industry in other ways. One major example is our joint effort to adjust to the Environmental Protection Agency decision to ban ethylene dibromide fumigant for fruits and vegetables. I know the Committee is concerned with this problem, and we will continue to do everything we can to ease the burden on U.S. agriculture.

Our FY 1985 budget proposes a major shift in cost-sharing arrangements for our largest program, brucellosis. With the brucellosis market cattle infection rate at only 0.37 percent in 1983, we believe that industry should bear a greater share of the very high costs associated with eliminating the remaining infection. APHIS is prepared to continue the more necessary Federal roles of surveillance and coordination of program activities and data. The method of funding we are now considering is a checkoff system at either slaughter plants or public markets. Obviously this is a big step for the Agency, the States, and the industry, with many issues to be settled. We will work with all concerned groups to obtain authorization for and to implement a mutually acceptable system. We will keep you informed of our progress and seek your counsel.

We continue to work hand-in-hand in cooperative efforts with other Federal agencies. We regularly consult with the Agricultural Research Service (ARS) to identify improved control and eradication approaches. ARS research support contributes significantly to the effectiveness of national agriculture health protection programs.

Avian Influenza Emergency

Each of the three major commitments is evident when we react to emergency pest or disease outbreaks. As you know, we are now involved in a massive emergency effort to eradicate avian influenza, a deadly disease which, except for minor outbreaks affecting turkeys, had not been seen in this country since 1929. I would like to briefly update you on the situation.

Avian influenza is an acute, highly contagious, and often fatal disease of chickens and turkeys. A mildly pathogenic strain was first found in chicken flocks of southeastern Pennsylvania in April 1983. Because it was limited in its impact on poultry, we restricted our initial involvement to surveillance only. However, in mid-October the mortality rate climbed to 40 percent or higher in some affected flocks. We then convened a technical advisory committee of Federal, State, and industry officials, and academicians in the poultry field. Their initial recommendation was that a Federal quarantine be imposed and that we immediately begin an eradication effort to deal with only the more highly pathogenic - "high path" - strain. Secretary Block declared an extraordinary emergency on November 9, 1983, and Federal, State, and industry resources were mobilized to deal with the outbreak.

Our initial strategy was to eradicate the "high path" strain by depopulating affected flocks and control the "low path" strain by quarantining the area and restricting movement of poultry products. It became evident, however, that a different approach was necessary. Current laboratory diagnostic methods are not sensitive enough to differentiate between high- and low-pathogenic strains. Because the low-path form of the disease can mask the more virulent strain present in the same flocks, seemingly healthy chickens can carry the high-path virus and continue to spread it. The technical advisory group was reconvened to review the effectiveness of the program and recommended that the goal be revised to include eradication of both the high- and low-pathogenic strains. The virus, meanwhile, spread to flocks outside of the original four-county area in Pennsylvania and to New Jersey, Maryland, and Virginia. APHIS has now expanded eradication activities by conducting active surveillance to seek out all foci of the disease and depopulating all flocks containing any strain of the virus. We believe that we are now moving ahead and will be successful in eradicating the disease.

FY 1985 Budget

Having discussed our philosophy and accomplishments, I would like to turn now to a few specifics on the FY 1985 budget. I believe that this budget will allow us to keep our major commitments while still contributing to the effort to hold down Federal spending. We are requesting $222,138,000 for our "Salaries and Expenses" appropriation and $2,386,000 for buildings and facilities. However, we have proposed legislation which would authorize reimbursement of $3,600,000 for phytosanitary certification of plants, export certification for animals and animal products, and certain quarantine costs at APHIS animal import facilities. We will also propose legislation authorizing collection of an estimated $25,877,000 from the brucellosis checkoff system. We believe that the net program decrease of $15,943,000 from FY 1984 is appropriate in light of the overall budget picture and, with increased involvement by States and industry, will provide an adequate level of agricultural protection.

Program Increases

The budget includes increases for several programs which emphasize the Federal role of preventing disease and pest entry. We have requested increases for our international programs, both in the plant protection and animal health areas.

These increases will allow us to further expand our network of specialists overseas both to prevent disease and pest movement and improve the marketability of our products.

We are also requesting an increase for our Medfly program in Mexico and Guatemala. Although Mexico declared the Medfly eradicated in 1982, they are experiencing recurring outbreaks along the Mexico-Guatemala border in areas previously freed of the pest. It is crucial to prevent this reinfestation in order to preserve the protection we now enjoy from the danger of Medfly entering the United States from Mexico. Working with Mexico and Guatemala, we have implemented a joint action plan to get the program back on track. While we redirected funds in FY 1983 to support this work, an increase in appropriated funds is necessary to ensure its continuation in FY 1985.

We are also requesting increases in the miscellaneous plant pest and animal disease programs. We are proposing the increases both to improve our flexibility to react quickly to minor pest and disease outbreaks and contain them before they become major emergencies and to provide a smooth transition from large scale APHIS programs to those with greater State and industry participation. Although APHIS may scale down its involvement in some control efforts, our expertise and survey and enforcement capabilities are crucial to overall program success.

Program Decreases

There are also several program decreases in our budget. The largest decrease is the kind we are happy to propose because it means we have been successful. This is the $12,267,000 reduction we are able to request in the screwworm program. We will use the requested funding to wrap up the eradication phase and begin the maintenance phase of the program in 1985.

Other decreases reflect our commitment to focus on clearly Federal responsibilities. In some programs, such as boll weevil, golden nematode, grasshopper, and pink bollworm, we are proposing relatively minor shifts of responsibilities to the States and industry. In the animal welfare, gypsy moth, and imported fire ant programs we are proposing somewhat larger decreases. For programs that deal with problems of a localized nature, such as noxious weeds and witchweed, we plan to reduce our roles to only those that cannot be fulfilled locally.

Protection for American Agriculture

I have no doubt that APHIS will maintain its position as the world's preeminent agricultural health protection organization. We strongly believe that we are moving toward an effective mix of Federal-State-industry contributions and share of program responsibilities. At the same time, we have been able to address the need to hold the line on Federal spending. With the support of industry and this Committee, we will continue to deliver solid results and provide a high level of protection for American agriculture.

Mr. Chairman, members of the Committee, my associates and I would be glad to answer any questions you may have.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

ACARINE MITE

Question: I understand that the acarine mite, which is a honey bee parasite, is near the U.S.-Mexico border. I also understand that a grower in Mexico has offered his farm for acarine mite research, but as yet there is no agreement between the United States and Mexico. I realize that APHIS does not do the research on acarine mite, but I was wondering if any cooperative eradication agreement is in the works.

Answer: ARS is negotiating for cooperative research work to be conducted outside of the United States to develop both control and regulatory measures.

Question: When do you expect the acarine mite to reach the United States? How far is it from our border?

Answer: The acarine mite does not appear to be moving closer to the United States. According to our last survey the acarine mite is still 150 miles from the border, as it has been for the past few years. We prohibit the entry of bees into the United States which prevents the acarine mite from arriving through routine shipments. We also conduct surveillance along the Mexican border to look for evidence of exotic mites infesting honey bee colonies. Although these measures have proved effective, there is the possibility that the acarine mite may naturally move across the border with wild bee swarms.

Question: I have been told that the Africanized bee may actually lose its ferociousness as it gets into the more temperate climates. In that case, it would not be as real of a threat as some once thought. If that is the case, wouldn't it make sense to put more effort into acarine mite eradication since it poses an immediate problem?

Answer: We share the concern you and the honey bee industry have about acarine mite. However, we do not believe that it poses an immediate threat requiring an APHIS program. We also do not have the necessary technology to conduct such an effort.

AIRPORT INSPECTIONS

Question: What process is involved in the inspection of baggage at airports to intercept prohibited contraband materials?

Answer: Our inspectors work with U.S. Customs Service and Immigration and Naturalization Service personnel to screen baggage. Primary inspections, conducted by the Customs and Immigration officers, consist of reviewing the arriving passenger's declaration form and some questioning. Easily identified prohibited material can often be caught at this point. When passengers so declare or are found to possess prohibited material, they are directed to a secondary agricultural inspection. After completing the primary inspection, passengers proceed to the baggage claim area, where APHIS inspectors and sometimes Customs' officers screen people fitting a high-risk profile. Suspicious passengers are referred to the secondary counter for a more thorough inspection. The initial inspection, the declaration form, and the judgment of screeners in the baggage claim area may all be factors in deciding upon the need for secondary inspection.

BOLL WEEVIL

Question: Your budget notes say that the boll weevil program cut will come from the High Plains control program, not the eradication program. However, you also show that the number of acres treated for boll weevils in the High Plains program will increase from 700,000 to 1,000,000 while the eradication program will treat only 60,000, compared to 510,000 in FY 1984. What is the explanation for these seemingly contradictory figures?

Answer: The boll weevil High Plains and eradication programs have different goals. The eradication program is a 3-year program with a 70/30 funding ratio between growers and the Federal Government. Its goal is to eradicate the boll weevil in North Carolina and South Carolina. We expect to significantly reduce boll weevil populations during the first 2 years of the program, allowing the reduction in acres treated in FY 1985. Costs in FY 1985 will include intensive survey to assure eradication and setting up a zone at the South Carolina/Georgia border.

The High Plains program is a continuous containment program with a 50/50 funding ratio. Its goal is to keep the boll weevil from moving west and infesting other cotton producing areas. In conjunction with cottongrowers in the High Plains, any acreage necessary to assure containment is treated. We estimate acreage to be treated 3 years in advance, based on the cyclical nature of the pest, which may either increase or decrease and then level off. We would expect the industry to fund incremental control costs when populations are higher, such as our initial estimates for FY 1985.

Question: If your answer above is that State support, or lack of it, will cause the increase or decrease in the program, does this mean you also expect no acres to be treated for fire ant control?

Answer: It is difficult to compare the fire ant situation to the boll weevil programs. In both boll weevil programs, organized industry groups bear a large share of program costs. States and individuals treat imported fire ant infested areas. We would expect both to continue treating such areas with available pesticides, which can be more effective when used on localized infestations.

CONSOLIDATION OF BORDER INSPECTION ACTIVITIES

Question: Is the consolidation of border inspection activities performed by APHIS, the U.S. Customs Service, and the Immigration and Naturalization Service still under consideration?

Answer: The possibility of consolidating border inspection activities is still under consideration. However, because of the specialized nature of agricultural inspection, the groups reviewing the consolidation have excluded APHIS from consideration.

FIRE ANTS

Question: I understand the Agricultural Research Service has developed a very successful fire ant pesticide. Why do you propose to virtually eliminate the Federal program for fire ant control, especially when, now more than ever, it looks as though there may be a way to control them.

Answer: At present, there are no highly effective fire ant control tools available for wide-scale use. ARS and private industry are developing fluorocarbons which show some promise for control. These substances, however, are in the developmental stage, and are not yet being field tested. Our methods development effort, which would refine the use of the potential control tools when they reach the field testing stage, will remain in place.

Question: If States are now supposed to operate the control program, why shouldn't we continue with matching funds, especially in the first year of having no Federal control funds?

Answer: The tools available for control are only effective for localized use. While we encourage the States and individuals to use these tools, we do not believe that they are adequate for the type of large-scale program which APHIS has previously matched funds under. Until such a tool becomes available, States and individuals should continue their efforts to provide local relief from the fire ant problem.

Question: In your explanatory notes, you say that the fire ant "appears to have reached its ecological range." What evidence do you have of that?

Answer: Although the fire ant spread slowly to the north and west from the infested area during the last year, we do not believe it will continue to spread at the previous rate. Cold temperatures during the winter should limit spread to the north. In the west, the desert presents a barrier to migration.

Question: Also in the notes, you say that the Agency's emphasis will be on development of more improved controls. Isn't the Agricultural Research Service (ARS) doing that?

Answer: Yes, ARS has responsibility for initial research and proposals. When ARS believes a new control method shows promise, APHIS conducts tests in the field and refines it to make it suitable for program use. In this regard, we use the term "methods development," or bridging research to practical wide-scale use, to define the APHIS role.

Question: For your part of the program, you cut the sites monitored by more than one-half and test plots conducted by two-thirds. How can you place your emphasis on development and simultaneously cut the program by more than half?

Answer: The sites monitored refers to our testing of areas treated with pesticides to determine environmental effects. Although we will reduce the number of test plots, we will screen the same number of chemicals and materials. We believe this will be adequate to reach conclusions on these substances.

Question: From FY 1983 to FY 1984, you eliminated 1,000,000 acres treated for fire ants. Isn't this quite a drastic action? Do you have evidence that States have taken over the control functions this fiscal year?

Answer: We cannot estimate the level of fire ant treatments until the States firm up their plans. They are now discussing those plans with us and we will soon have an estimate of acres to be treated under the cooperative effort in FY 1984. It appears that we will probably assist in treating a similar number of acres as in FY 1983.

Question: You justify your cut in the fire ant program with the reasoning that the problem is confined to a few States, and States should, therefore, take over regulatory responsibility, as well as responsibility for the control program. However, the golden nematode program is now restricted to several counties in New York, and you plan to continue your program there. How do you explain this difference in policy?

Answer: Differences in the threat posed by the imported fire ant and the golden nematode account for the different program goals. Unlike the imported fire ant, the golden nematode is an important agricultural pest, with the potential to spread through the United States. The imported fire ant appears to have reached its ecological range. Also, highly effective control and eradication tools exist for golden nematode. The lack of such tools for the fire ant makes continued large expenditures inefficient and ineffective. In FY 1985, we are devoting all of our efforts toward methods development in the fire ant program.

GYPSY MOTH

Question: Gypsy moth continues to present a devastating dilemma, especially for the Northeast. Yet you propose to eliminate many activities which, at least in part, help to control its spread. The budget notes imply that since no technology currently exists to completely stop its spread, you're going to curtail your efforts to control it. Wouldn't it be appropriate to continue current efforts, as limited in effectiveness as they might be, so that when a control mechanism is developed, the problem won't be completely out of hand?

Answer: We are not curtailing our efforts to control gypsy moth. Survey and trapping will continue in the generally infested area of the Northeast to delimit gypsy moth populations and identify problem areas. Recently implemented outdoor household article regulations will more effectively limit artificial spread while reducing the cost of our overall program. The States have the ability and tools to eradicate isolated outbreaks.

Question: How widespread is the use of pheromones or host-specific parasitic wasps in the control efforts for gypsy moth?

Answer: Some Northeastern States use parasitic wasps for use in gypsy moth control. For several years, APHIS contributed approximately $100,000 per year to New Jersey's effort to rear and distribute the wasps. Our studies showed that the wasps were only useful in suppressing very low level infestations, and not effective for widespread control.

Pheromones are used in all gypsy moth survey and trapping activities to lure moths into traps. Also, we use pheromones to disrupt the mating cycle. In Virginia and North Carolina, plastic wafers treated with pheromones are released by helicopters or are distributed on the ground at a rate of approximately one per square foot. The pheromones make it impossible for male moths to locate females. However, we find this technique useful only in areas with low level infestations.

Question: Last year, I questioned you about the coordination of efforts of the Forest Service, ARS, CSRS, and APHIS, concerning the Department's policy on the gypsy moth problem. You responded that there is a steering committee, but it had no policy authority. You further stated that a Gypsy Moth Working Group was under consideration which would have policy-setting authority. Have there been any further developments in that area?

Answer: The Secretary formed a gypsy moth working group, composed of representatives from APHIS, ARS, CSRS, and FS, among others, in April 1983. The group will review, formulate, and recommend to the National Resources and Environment (NRE) committee departmentwide policy on gypsy moth research and control. It will also review individual USDA agencies' roles, regulations, policies, and programs on gypsy moth and recommend to the NRE committee any appropriate action. The group is now drafting policy options on various gypsy moth program issues such as gypsy moth eradication, suppression, and research.

MISCELLANEOUS PLANT PEST PROGRAM

Question: You request a 137 percent increase for the miscellaneous plant pest program. You justify this by saying that there is a large number of programs now in transition from APHIS control to state control. It seems to me that with more programs in the transition phase to state control, you would need less money--not more. Why will you need more money for these programs?

Answer: The programs in the transition phase are those for which we do not receive specific funding but which still require APHIS technical assistance and regulatory authority. Without more funding available in the miscellaneous pests line item, these programs would receive no support. Programs where funding has been eliminated over the past few years but may still require some APHIS activity include Japanese beetle, barberry eradication, citrus blackfly, multiflora rose, West Indian sugarcane root borer, range caterpillar, trifly in Hawaii, and khapra beetle. We still have to conduct activities on new pest threats, such as citrus canker and corn cyst nematode, using miscellaneous plant pest funds. Such emerging threats must receive priority and place funding pressure on the transition programs.

Question: If a large number of programs is now already in existence, it seems that you would have needed more money this fiscal year, not next. How was the money spent this year? Did you reprogram money from other programs?

Answer: In FY 1983, we spent $703,592 on miscellaneous plant pests. Only $483,000 was specifically appropriated for this program. We were able to fund the difference from small balances available in several other programs. We used most of the funding for two significant emerging threats, the corn cyst nematode in Maryland and citrus canker in Mexico. We also had large obligations in FY 1983 for khapra beetle and Japanese beetle, which were funded from the contingency fund and the regular Japanese beetle line item.

FY 1984 miscellaneous funding will again focus on corn cyst nematode, citrus canker, khapra beetle, and Japanese beetle, the latter at a reduced rate. We do not anticipate a need to reprogram funds at this time. However, within currently available resources, responding to new pest threats does limit our ability to provide adequate assistance in transition programs such as Japanese beetle. The requested increase for FY 1985 will provide the flexibility to carry out both responsibilities.

Question: Please list the current programs in the miscellaneous program and which states are affected.

Answer:

Miscellaneous Plant Pests and Diseases Program*

Program	Affected States
Barberry	Midwest, Mountain, Border States
Caribbean fruit fly	California, other citrus producing States
Citrus blackfly	Florida, Texas, other citrus producing States
Citrus canker	Citrus producing States; Mexico
Corn cyst nematode	Maryland
Japanese beetle	California, other Western States
Khapra beetle	Nationwide
Multiflora rose	West Virginia
Oriental fruit fly	California
Peach fruit fly	California
Range caterpillar	New Mexico, Colorado, Oklahoma, Texas
Trifly	Hawaii
West Indian sugar cane root borer	Florida

* The programs listed are not all ongoing; there may not be obligations each year for every program.

NOXIOUS WEEDS

Question: What is the status of the trial eradication project for common crupina in the State of Idaho?

Answer: We began an eradication feasibility trial in 1980, testing air and ground herbicide application and the longevity of seed viability. The trial was successful, leading to the common crupina trial eradication project begun in 1983. The plan involves fall and spring herbicide applications, followed by appraisal surveys and spot herbicide treatments of any small, missed infestations.

The 1983 fall treatments were applied last October on 560 acres at Orofino, Idaho, and 240 acres at Five Mile Creek, Idaho. The eradication areas are 10 to 16 miles north of the major infestation in Idaho and Lewis counties. Results of the appraisal survey on the fall application were inconclusive due to exceptionally cool temperatures. Spring 1984 treatments will be applied by the end of April, followed by an evaluation of the completed treatment. In the fall, we will conduct an appraisal survey and retreat where necessary. We believe common crupina could be eradicated in the project areas 4 years after the projects are implemented.

PLANT PROTECTION

Question: In your geographic breakdown of obligations, you show that all locations outside the United States will receive an increase in funding, but many of the States, especially southern States, will receive drastic cuts in their allocations. Why?

Answer: Changes in only a few programs cause obligations to increase in foreign locations and decrease in southern States. The foreign location increase reflects our new emphasis on preventing the entry of plant pests and improving our export market possibilities through international programs. Another contributing factor is the Medfly program increase, which causes a slight rise in obligations for Mexico and Guatemala. The decrease in obligations for southern States involves the imported fire ant and witchweed programs. We are reducing our role in those programs and the corresponding dollar savings are reflected in those States where we currently make large expenditures. The basic level of agricultural protection, provided through our port-of-entry, pest detection, and other programs, will remain high in the southern States.

VARROA MITE

Question: What is the status of research on the varroa mite? Does it in any way pose a threat to the American bee industry?

Answer: ARS is negotiating for cooperative research work outside of the United States to develop control and regulatory measures. We conduct surveillance to detect the entry of varroa mite. It exists on all continents except for North America, Australia, and New Zealand, and poses a greater threat than the acarine mite since its effect on honey bees in temperate climates is severe. We recently conducted a successful emergency test exercise on the varroa mite to help us develop sound control and eradication procedures should it penetrate our borders.

AFRICAN SWINE FEVER

Question: How much did it cost the U.S. Government for its part in the eradication of African swine fever from Haiti?

Answer: APHIS contributed $21,049,000 to the African swine fever eradication program in Haiti.

ANIMAL QUARANTINE FACILITIES

Question: USDA has animal quarantine facilities in Newburgh, New York, Miami, Florida, Honolulu, Hawaii, and a new facility in Los Angeles. What is done to prevent exotic animal diseases from entering the United States through other ports?

Answer: USDA personnel are stationed at all U.S. ports-of-entry to regulate the importation of animals, animal products, and other materials that are potential carriers of foreign animal diseases. APHIS officers inspect passenger baggage, cargo, and foreign mail, and supervise the disposal of garbage from foreign ships and planes to ensure that exotic animal diseases are not introduced into the United States.

The animal import centers in New York, Florida, Hawaii, and California have inspection and quarantine facilities necessary for quarantining any type of animal import except animals from foot-and-mouth disease and rinderpest affected countries. The Harry S Truman Animal Import Center in Key West, Florida, quarantines animals imported from countries affected with foot-and-mouth disease, rinderpest, or other diseases which would otherwise preclude these animals from entering the United States. USDA also maintains a number of land border stations along the Canadian and Mexican borders which have inspection facilities for animals entering the United States from Canada and Mexico.

Horses imported into the United States may enter through APHIS import centers or private quarantine stations if the private facilities meet certain USDA structural and security requirements. Horses imported from countries affected with contagious equine metritis can enter through USDA facilities or through USDA approved State facilities.

USDA has inspection facilities at numerous ports which supervise the importation of animal products such as animal semen, animal test specimens, and hatching eggs which do not require quarantine or holding facilities. Day-old chicks may be imported through these ports. There are also a number of other locations which are designated as ports-of-entry for private and commercial imports of pet birds.

ANIMAL WELFARE

Question: The budget request for FY 1985 contains $3.7 million for the animal welfare program, a reduction of $1.2 million from the FY 1984 level. The Department's explanatory notes state that APHIS will reduce the frequency of routine inspections of licensed dealers, research facilities, exhibitors, and carriers and that States, industry groups, and humane societies should take on greater responsibility for enforcement of animal welfare. Preliminary indications from an upcoming GAO report on enforcement of the Animal Welfare Act show that routine inspections are already chronically infrequent, usually due to insufficient funds. How frequently does APHIS plan to inspect sites if the reduced budget is approved?

Answer: We plan to inspect dealers, exhibitors, and research facilities an average of one and one-half times per year. Our inspections of airports and intermediate handlers will vary based on the volume of animals handled by individual establishments.

Question: How will this reduced inspection frequency affect USDA's responsibility for enforcing the provisions of the Animal Welfare Act?

Answer: USDA will continue to enforce the Animal Welfare Act, but we are reordering program emphasis to effectively carry out that responsibility with fewer resources. Our experience has shown that well operated facilities are generally in compliance during routine inspections; therefore, we will concentrate our inspection effort on known problem operations. We will emphasize preparation of strong cases against violators to increase the prosecution rate which, in turn, serves as a deterrent to potential violators. In addition, we have signed a memorandum of understanding with the Food and Drug Administration and the National Institutes of Health which defines interagency efforts to coordinate compliance activities. Under this arrangement, the agencies will share lists of facilities inspected, inform one another of noncompliance encountered, and exchange comments concerning proposals for regulation or policy changes. We feel confident that with these actions we will be able to continue effective enforcement of the Animal Welfare Act.

Question: Has USDA had any meetings or discussions with States, industry groups, and humane societies concerning their ability and willingness to take on greater responsibility for enforcing animal welfare?

Answer: On February 9, 1984, APHIS officials met with representatives of major livestock industry groups, animal care organizations, and States to solicit their views on program priorities and the budget. The participants had an opportunity at this meeting to express their position regarding the animal welfare program for FY 1985. We are in frequent contact with States, industry groups, or humane societies relative to enforcement of the Animal Welfare Act.

Question: What assurances has USDA received that these organizations will assume the added responsibility?

Answer: These groups have been actively involved in reporting apparent violations, many of which have led to formal complaints being filed by the Department.

Question: What does USDA plan to do if these organizations do not take on the added responsibility?

Answer: Even if these organizations maintain their current level of support, we believe we can adequately enforce the Animal Welfare Act with fewer resources. We plan to utilize our personnel more efficiently by concentrating on problem facilities identified by the constituent groups.

Question: Do States, industry groups, and humane societies have authority to make inspections of regulated facilities on their own?

Answer: The Animal Welfare Act authorizes only employees of the United States Department of Agriculture to conduct inspections of regulated facilities. State personnel may inspect facilities if such authority exists under State law. Industry and humane groups have no statutory authority to inspect facilities, so their activity is limited to facilities which voluntarily allow them to enter.

Question: Should the responsibility for enforcement be transferred as proposed, how will violations be handled in the interim?

Answer: We plan to continue using Department personnel in the enforcement process when apparent violations are identified. We do not intend to shift enforcement responsibility to States and private organizations. We will continue to rely on these groups to report apparent violations.

Question: How can institutions or organizations that operate in several States comply effectively with varied State laws and regulations regarding the care and treatment of laboratory animals?

Answer: Facilities operating in several States would have to comply with the laws of each State much the same way they must presently comply with the various State business, criminal, or traffic laws. The Animal Welfare Act provides minimum standards for the humane treatment of animals used for research, exhibition, or pets. Individual States may have more restrictive laws.

Question: How would interstate carriers of animals, which APHIS cites as a major source for violations, be monitored?

Answer: APHIS would selectively monitor key airports and also follow up on problems and complaints reported by private groups.

Question: In a January 25, 1984, letter to me, USDA stated that the animal welfare program "stands to gain immeasurably in achievement of long-range goals to implement essential data storage and retrieval systems using currently existing computer technology." What specific plans does USDA have for applying computer technology to the animal welfare program? Please explain how the plans will advance the program's long-range goals?

Answer: Some field offices already have computerized animal welfare records. Although we currently do not have specific plans for the application of computer technology in the entire animal welfare program, eventually we hope to have all field offices and the headquarters staff on a common computerized system. Such a system would contain a list of all licensees and registrants, the location of all their animal sites, and the types and number of animals in each. We would record all inspections, deficiencies, and actions taken. We would set up a similar system for compliance and prosecution procedures. Such a system would enhance enforcement of the Animal Welfare Act by providing the capability to update records immediately and retrieve current status information concerning alleged violation cases.

AVIAN INFLUENZA

Question: As you recall, this Subcommittee held a special hearing in January on the avian influenza outbreak. Please update the Committee on the progress since that hearing of the avian influenza eradication efforts in Pennsylvania, New Jersey, Maryland, and Virginia, including a date by which you hope to have the disease completely eradicated?

Answer: As of April 27, 1984, a total of 363 premises, with 12.9 million birds, have been found infected with the disease in Pennsylvania, New Jersey, Maryland, and Virginia.

The avian influenza eradication effort in Pennsylvania, New Jersey, and Maryland was finding the largest numbers of infected flocks up until about the first of January. Early in the program, an average of four to five premises were declared positive per day, as contrasted to the current average of about two to three per week. No new infected flocks have been found in Pennsylvania since April 1. Infected flocks are now depopulated generally within 2 days of detection in both Pennsylvania and Virginia. Cleaning and disinfecting has been approved on 264 depopulated premises, and 180 premises have been released from Federal quarantine.

We released the quarantine in New Jersey on March 6, 1984, and in Maryland on April 5, 1984. The portion of Franklin County, Pennsylvania, that was within the quarantine area was released March 1, 1984.

Task force personnel are carrying out an active poultry surveillance program in search of the virus by utilizing dead-bird pickup as well as looking for antibodies in blood serum and egg yolks. This is being done in the quarantine areas of Pennsylvania, Virginia, and a contiguous high-risk area in West Virginia. In addition, industry and State officials have initiated extensive surveillance to detect any early incursion of infection.

On April 3, we increased the indemnity rates paid for layers, pullets, broilers, and turkeys to reflect their fair market value. These values had increased due to changes in production costs which had risen since the eradication work began in November. The new rates are retroactive to the declaration of the extraordinary emergency on November 9, 1983. We estimate this change will result in $5.9 million in additional indemnity payments.

A total of $61.7 million has been transferred from the Commodity Credit Corporation to the Animal and Plant Health Inspection Service for the eradication effort. Over $41.0 million of this amount has actually been obligated so far.

Question: Please also give a complete status report on the outbreak in California turkeys, including indemnity payments, how much it is expected to cost the Federal Government, etc.

Answer: In early March 1984, avian influenza was diagnosed in a turkey breeder flock located east of Waterford, California. Two additional flocks that were exposed by an insemination crew also became infected. The first flock was depopulated on March 11, 1984, and indemnity was paid by the industry. The second flock was depopulated on March 11, 1984, at the expense of the owners. The third flock, at Watsonville, California, was depopulated by the State of California after special legislative action.

No Federal indemnity funds were expended in the California outbreak. APHIS involvement is limited to diagnostic investigations, laboratory support, and supervisory assistance with State personnel for depopulation, cleaning and disinfecting, and epidemiological activities. Our costs have been minimal and are covered in our regular funding for emergency programs and veterinary diagnostics.

Question: Is the form of avian influenza which has stricken turkeys in California the same as that which has stricken the Northeast?

Answer: The AI virus in California was serotyped as H_5N_3, a different virus than the H_5N_2 found in Pennsylvania and Virginia. There is no epidemiological evidence connecting the California situation with the eastern outbreaks.

Question: On April 3, 1984, the Secretary of Agriculture announced that indemnity payments to poultry producers for birds destroyed because of avian influenza would be increased, retroactive to November 9, 1983, when the extraordinary emergency was declared. What was the reasoning behind this decision? Is downtime now being considered in the basis for indemnity payments?

Answer: The USDA Economic Research Service calculates indemnity rates to reflect the fair market value of the birds based on the costs of production. Since the indemnity rates were first calculated at the start of the eradication program, costs of day-old chicks and started pullets have increased. Production costs have also risen due to disease prevention measures and disrupted markets. We revised indemnity rates on April 3 to reflect these increases. We have not included downtime costs in determining the new rates.

BRUCELLOSIS

Question: Please list how each State is classed for brucellosis.

Answer: We will provide this information.

Class Free

Alaska
Connecticut
Delaware
Hawaii
Maine
Maryland
Massachusetts
Michigan
Montana*
New Hampshire
New York
North Dakota
Pennsylvania
Rhode Island
Utah
Vermont
Virgin Islands
Wyoming*

Class Free and Class A

Montana
Wyoming

Class A

Arizona
California
Colorado
Idaho
Illinois
Indiana
Montana*
Nebraska
New Jersey
New Mexico
North Carolina
Ohio
Puerto Rico
South Carolina
South Dakota
Virginia
Washington
West Virginia

Iowa
Minnesota
Oregon
Wisconsin
Wyoming*

Class B

Alabama
Florida**
Georgia
Kansas
Kentucky
Missouri
Nevada
Oklahoma
Tennessee
Texas**

Class C

Arkansas
Florida**
Mississippi
Louisiana
Texas**

* Montana has 49 counties in Class Free status and seven counties in Class A status. Wyoming has 21.5 counties in Class Free status and 1.5 counties in Class A status.

** Florida has 21 counties in Class B status and 46 counties in Class C status. Texas has 141 counties in Class B status and 113 counties in Class C status.

Question: In your explanatory notes, you show that the FY 1984 level of funds for the brucellosis program was $63,540,000. The appropriated amount was $69,500,000. How do you account for this discrepancy?

Answer: The $63,540,000 amount shown for brucellosis in FY 1984 excludes $5,960,000 used to finance part of the interstate inspection program. Historically, the interstate inspection program has been funded in part by charges from other programs such as brucellosis. Those programs benefit from interstate inspection activities designed to prevent the interstate spread of animal diseases. We are proposing to discontinue this practice in FY 1985 and fund interstate inspection entirely as a separate line item. This proposal would simply change the method of displaying interstate inspection costs and will not have any adverse impact on the other programs involved.

Question: The State of Texas recently proposed a reduction in Federal indemnity payments in the brucellosis program. Under what circumstances do you allow lower payments to producers?

Answer: APHIS establishes the maximum allowable Federal indemnity rates. It is our policy as stated in the brucellosis program regulations to allow the payment of Federal indemnity at less than the maximum per head rates if requested by an individual State or if sufficient funds appear to be unavailable for this purpose for the remainder of the year. No Federal indemnity can be paid in States or areas under Federal quarantine.

Question: Have other States made similar requests? Do you encourage such action to be taken by States?

Answer: We have approved a request by the State of Arkansas this year to eliminate Federal indemnity and redirect funds for additional testing conducted by fee-basis veterinarians. We examine these proposals on a case-by-case basis. We generally approve such action when there is State and industry support and the savings can be used effectively for other program activities.

Question: How much money could be saved by the Federal Government if all States did that?

Answer: Based on the number of brucellosis reactors found in the first 5 months of FY 1984, reducing the indemnity rate in all States to the current $43 rate in Texas for all classes of cattle, including dairy and registered, would save $3,586,000 on an annual basis. The elimination of all indemnity as has been done in Arkansas would save $7,390,000 on an annual basis.

Question: In your statement, you say that you believe the industry should bear a greater share of the "very high costs" associated with eliminating the remaining infection. What activities or procedures constitute these "very high costs?" Can you give a rough estimate as to how much it costs to perform these activities or procedures on one herd?

Answer: The program costs associated with one infected herd can be divided into two categories: the surveillance cost to find the herd and the cost to eliminate the infection from the herd after it has been found.

The highest cost in the program is for the surveillance needed to locate infected herds. Since surveillance must be maintained at or near its current level until the disease is eradicated, the cost to locate each infected herd will increase as the infection rate decreases. Eliminating infection includes the costs of retesting infected herds, tagging, branding, and removing reactors, and vaccination.

In FY 1984, we estimate that it will cost $6,634 to locate each newly infected herd found during the year. The cost to eliminate the infection from an average herd is estimated at $3,250 plus an additional $1,263 to indemnify each herd owner for the reactors that are found.

EXPORT/IMPORT INSPECTION

Question: How often are animals denied entrance into the United States as a result of inspection at APHIS quarantine facilities?

Answer: The following statistics indicate the number of animals, birds, and poultry offered for entry into the United States and the number rejected in FY 1983:

Species	Number offered for entry	Number rejected	Percent rejected
Cattle	1,051,031	38,628	3.67%
Swine	459,834	367	.08%
Sheep	9,319	17	.18%
Goats	195	0	.00%

Horses	37,390	157	.42%
Poultry	929,617	300	.03%
Commercial birds	809,447	9,303	1.14%
Pet birds	2,785	38	1.36%
Total	3,299,618	48,810	1.48%

Animals, poultry, and pet birds may be denied entry into the United States for a variety of reasons. The most common reasons are the lack of proper health and identification documents and the failure of the animals to pass the initial veterinary examination or the required diagnostic laboratory tests.

INTERNATIONAL PROGRAMS

Question: Your budget notes mention that you plan to establish new veterinary offices in several foreign countries. In Asia, you plan to establish one in either Japan or China. What considerations go into that kind of choice?

Answer: International trade considerations and protection of U.S. livestock health determine the need for and location of veterinary offices in foreign countries. International commerce in animals, animal semen, embryos, and products is increasing. Efforts to further such commerce involve negotiating the animal health status requirements with foreign countries, because those requirements could serve as non-tariff barriers and threaten U.S. export markets. We plan to station APHIS veterinarians overseas to consult on the proposed export requirements proposed by the countries. The U.S. livestock industry and USDA also need up-to-date information regarding animal diseases exotic to the United States. The information is used to formulate contingency plans for the ever present possibility of such diseases invading the United States. Our veterinarians will collect and evaluate such information. We want to locate veterinary services foreign offices where these objectives can best be served.

In selecting locations, we looked for countries which were representative of different geographic regions of the world. We also considered countries where there is significant international trade or the potential for such trade in animals and animal products.

MISCELLANEOUS ANIMAL DISEASE PROGRAM

Question: You propose quite a drastic increase (106%) in the miscellaneous animal disease program, which you justify by stating that diagnostic investigation of a number of disease programs is needed. Why are these investigations suddenly needed? Have these diseases not been investigated before?

Answer: The present level of funding in miscellaneous animal diseases is used primarily for the scrapie program and disease surveillance in the Virgin Islands. Very little is available to provide technical support and assistance in a number of other animal disease problems which may appear to be minor in nature but have the potential to develop into more serious problems if not diagnosed and contained quickly. An increase in funding for miscellaneous diseases would provide the capability to investigate outbreaks of such diseases. Only limited investigations of these disease problems have been made in the past.

Animal diseases which fall into the miscellaneous diseases category include bluetongue, which seriously impacts the domestic sheep industry and to a slightly lesser extent the cattle industry. Presently, the existence of bluetongue in the United States hinders animal and animal product exports from the United States. The proposed increase would also allow the Department to investigate occurrences of several equine and poultry diseases as well as to provide some technical assistance to States with cattle scabies outbreaks.

Question: Why is this not done in the veterinary diagnostics account?

Answer: The veterinary diagnostics account covers only the cost of the laboratory tests in support of these diagnostic investigations. The actual field work is financed from the miscellaneous animal diseases program.

PSEUDORABIES

Question: What is the status of the pseudorabies pilot projects in Iowa, Illinois, Pennsylvania, Wisconsin, and North Carolina, which were called for in the Senate Report on the regular FY 1984 appropriations bill?

Answer: APHIS is conducting pseudorabies pilot projects in those five States to test various methodologies for determining disease incidence and eradication techniques. The Illinois and Iowa projects began intensive testing in limited areas during FY 1983. The North Carolina, Pennsylvania, and Wisconsin pilot projects began in early FY 1984. All projects are scheduled to end in September 1985.

Producer participation in both the Iowa and Illinois projects is voluntary. In Illinois, we are determining the pseudorabies status of all cooperating herds in areas of Pike and Macoupin Counties. Infected herds are quarantined, and herd owners have instituted herd cleanup plans. Serological tests are required for movement of breeding swine with infected breeding swine sent to slaughter. We are monitoring high risk herds to detect spread.

In Iowa, we have determined the pseudorabies status of virtually all herds in Marshall County. Producers may maintain herds free of pseudorabies as qualified pseudorabies negative herds or pseudorabies controlled vaccinated herds. Quarantines are not imposed. Owners of infected herds are encouraged to implement an approved herd cleanup plan initially or vaccinate all swine with clinical signs of infection to control spread prior to cleanup. Most owners have elected to vaccinate prior to starting herd cleanup. Approximately 6 months after an outbreak in a herd, offspring left unvaccinated will be isolated to form the nucleus of a pseudorabies free herd.

Statewide programs in North Carolina, Pennsylvania, and Wisconsin concentrate on cleanup of herds known to be infected with pseudorabies and on identifying additional infected herds by serologic testing of slaughter swine. Infected herds are quarantined until they are pseudorabies free or voluntarily depopulated. State and Federal personnel and private practitioners are available for technical advice and testing for cleanup of infected herds. Both Wisconsin and Pennsylvania require approval of herd cleanup plans and progress reports. The projects control vaccine usage and emphasize animal identification.

Question: What part is industry playing in these projects?

Answer: The swine industry in the five States participated with State officials in developing the project plans and has an ongoing advisory role in the projects. The Department regularly reports to and meets with the National Pork Producers Council (NPPC) Oversight Committee and other industry groups. The NPPC has provided $100,000 for the pilot projects. Individual producers are participating in the pilot projects on a voluntary basis by implementing herd cleanup plans. In Iowa, many owners have elected to vaccinate their animals prior to herd cleanup. In Iowa and Illinois, producers are sending infected breeding swine to slaughter. In North Carolina, Pennsylvania, and Wisconsin, infected herds are quarantined until they are pseudorabies free or voluntarily depopulated by producers.

Question: Why did the number of suspect herds increase so drastically (from 3 to 40) from FY 1983 to FY 1984? Why do you expect a reduction in FY 1985?

Answer: The FY 1984 and FY 1985 figures are estimates that reflect surveillance activity that did not take place in FY 1983. The pilot projects we initiated in North Carolina, Pennsylvania, and Wisconsin during February and March 1984 will identify suspect herds by testing swine sera collected at slaughter. Traceback of positive slaughter sera will result in source herds being classified as suspect until pseudorabies status is determined by additional testing. We expect the largest number of suspect herds to be identified in FY 1984 when this effort is initiated. The number should drop some in FY 1985 as the program progresses and the incidence of pseudorabies is reduced.

PSITTACOSIS

Question: In January, there was a report of a parrot in Vermont which died from psittacosis, a respiratory disease that can be transmitted to humans. Have there been any more reports of the disease? How serious can the disease be to humans? To other birds?

Answer: Psittacosis is a common disease problem in psittacine birds. Five to 10 percent of tests taken by avian private practitioners for diagnostic purposes are positive for _Chlamydia psittaci_, the causative agent of psittacosis. The organism is also commonly isolated in pigeon populations and occasionally causes an economically disruptive disease in turkey and waterfowl production facilities. In poultry flocks, the disease caused by _C. psittaci_ is called ornithosis.

The organism causes a serious respiratory disease in humans and deaths have been reported. Aerosol exposure to dust containing the organism is believed to be the usual cause of human infection, but the disease is usually not known to spread extensively from human to human. Slaughter of infected poultry flocks in processing plants has resulted in multiple human infections, some requiring hospitalization.

There appear to be differences in pathogenicity of strains of C. psittaci. Certain strains of the organism produce high mortality in psittacine birds, turkeys, waterfowl, and other birds. The seriousness of the disease may be altered by stress or poor environmental conditions. Treatment by chlortetracycline for long periods is effective in controlling the disease.

AIRCRAFT

Question: Why do APHIS personnel who monitor the release of screwworm flies not fly in the plane which is releasing the flies? Why is an observation plane that follows behind the release plane necessary?

Answer: The screwworm program has been using contract aircraft in dispersing sterile screwworm flies for several years. This requested authority for Agency-operated observation planes would be used as necessary to evaluate the effectiveness of the current fly release procedures. It would be very difficult for APHIS to rent this type of aircraft, especially in Mexico. This is a stand-by authority and would be exercised only if we feel that contractor performance may be unsatisfactory.

APHIS BUILDINGS AND FACILITIES

Question: What kind of sterile flies will be produced at the University of Hawaii fly rearing facility?

Answer: The facility will produce sterile Medflies to combat outbreaks in the continental United States. During emergencies, it will increase production from a maintenance population of 10-20 million flies to production of 500 million flies per week. The facility could be restructured to produce sterile oriental fruit flies or melon flies.

ENFORCEMENT

Question: Please describe, generally, how you are implementing the civil penalties legislation passed by the 97th Congress.

Answer: The civil penalties legislation enables APHIS to impose monetary penalties substantial enough to deter repeated incidents of agricultural violations and strengthen enforcement of quarantine regulations. Late in FY 1983, we began using civil penalties for violations of animal quarantine regulations and for baggage, plant quarantine, cargo, and garbage handling violations. In early March 1984, we completed nationwide implementation of a system for assessing civil penalties for baggage violations at international ports-of-entry. The dollar amount of the penalties we seek for violations varies based on the severity of violations and the number of repeat offenses. The process of seeking civil penalties through administrative procedures is much quicker than relying on the Department of Justice to prosecute the cases criminally. However, if we do not obtain the compliance of an individual through civil penalties, we can still refer cases for criminal prosecution.

Question: How many prosecutions have been made the last few years in each operation in which APHIS has the authority to prosecute?

Answer: From FY 1981 to FY 1983 there were eight criminal prosecutions involving material brought into the United States illegally and which which posed a major threat to the agricultural industry. During the same period, there were 84 animal quarantine cases, 114 animal welfare cases, and 82 horse protection violations which were prosecuted through either criminal or administrative proceedings. Since we implemented the civil penalties legislation, we have processed over 130 animal quarantine cases and over 2,000 baggage violations. Baggage violations alone have resulted in the collection of over $56,000 in fines. The fines we collect are deposited into the U.S. Treasury as miscellaneous receipts.

GENERAL

Question: What relationship does APHIS have with the Food and Drug Administration with regard to animal disease control? With regard to imports?

Answer: Under the authority of the Virus-Serum-Toxin Act of 1913 (VSTA), APHIS is responsible for regulating animal biological products imported for research, distribution, or sale and animal biologicals manufactured for distribution and sale in interstate commerce. Diagnostic test kits used for diagnosis of infectious diseases of domestic animals are included in the definition of an animal biologic. Because animal biological products are also considered drugs under the Food, Drug and Cosmetic Act (FDCA), FDA regulates them when the VSTA does not apply. FDA's jurisdictions would include animal biological products that are manufactured and distributed only in intrastate commerce. FDA may also seize unlicensed or intrastate biological products delivered for shipments in interstate commerce. APHIS and FDA have a Memorandum of Understanding which outlines responsibilities for regulating animal biological products as biologicals under the VSTA or as drugs under the FDCA.

Imported food products which contain materials of animal origin, such as dairyproducts for human consumption can enter the United States only after being cleared by APHIS and FDA. While FDA is concerned with safety for human consumption, APHIS has the responsibility to ensure that products of animal origin do not introduce exotic animal diseases into the United States. Diagnostic test kits used in human medicine often contain products of animal origin and require clearance from both APHIS and FDA. FDA regulates the use of such kits used in human medicine while APHIS regulates the importation of animal products contained in the kits. APHIS regulates all diagnostic kits used in the diagnosis of infectious diseases of animals.

Question: In your explanatory notes under "Classification by Objects," you show that "Lands and Structures" had a large increase in FY 1984, and you're asking for a reduction for FY 1985. What is this line item composed of, and what is the reason for the differences in the 3 fiscal years shown?

Answer: This item is composed of major nonrecurring construction projects in support of specific program activities and recurring minor construction, alterations, and repairs of existing APHIS facilities. In FY 1983 a total of $2,714,695 was obligated for lands and structures. This included only $331,386 for the major nonrecurring construction projects, with the remainder going for recurring construction and alterations. During preparation of the FY 1985 budget, we estimated that the total unobligated balance from previous years' appropriation, $5,472,548, which was mostly major nonrecurring construction items, would be obligated in FY 1984 along with the FY 1984 appropriation of $2,386,000, for a total estimated obligation of $7,858,548. Under this assumption, only $2,386,000 would have been obligated in FY 1985 for minor construction.

Recent information leads us to believe that the construction contract for at least one major nonrecurring project--the Hawaiian fruit fly facility--will not be signed until FY 1985. It now appears that the FY 1984 land and structure estimate will be about $4.2 million, while the FY 1985 estimated obligations will increase to about $6.1 million. While these are estimated obligations resulting from carrover balances from previous years, the FY 1985 appropriation request of $2,386,000 is the same as the FY 1983 and FY 1984 Congressional allowances.

Question: Also under "Classification by Objects," there is a $10 million cut in "Grants, Contributions, Subsidies." What is this composed of, and why are you proposing such a cut?

Answer: Grants, subsidies, and contributions are composed of contributions to four programs that APHIS conducts in cooperation with foreign governments. They include payments to the U.S.-Mexico Screwworm Commission; the Mexican-U.S. Commission for the Prevention of Foot-and-Mouth Disease; the U.S.-Panama Commission for the Prevention of Foot-and-Mouth Disease and Rinderpest; and the U.S.-Colombia Mechanism to Prevent Introduction of Foot-and-Mouth Disease at the Darien Gap.

The FY 1985 cut is due to an estimated $10 million decrease in payments to the Screwworm Commission. We expect successful establishment of the sterile fly barrier and quarantine line at the Isthmus of Tehuantepec in southern Mexico by the end of calendar year 1984. With a smaller treatment area, sterile fly production will be reduced from 550 million to 320 million per week. This will reduce APHIS obligations for the total program by $12,267,000 including the reduction of $10,020,000 for payments to the joint commission.

PAY COST

Question: Your budget justification, under "1" of "Justification of Increases and Decreases," item "a" offsets costs resulting from the January 1984 pay increase. The last sentence in item "b" seems to imply that $1.5 million will be used for precisely the same thing - $3,291,000 total increase less $1,800,000 to continue quarantine inspection. Why did you split the increase in this manner?

Answer: Item "1a" includes pay costs for only those plant disease and pest control projects with no FY 1985 program increases or decreases. These include the biocontrol, Mexican fruit fly, and pest detection programs. All other pay costs are included with the individual program increases and decreases. The pay cost for the agricultural quarantine inspection project in item "b" totals

$1,574,000. There is a partially offsetting decrease of $83,000, which represents the agricultural quarantine inspection share of management savings.

PLANNED REDIRECTIONS

Question: In prior years, APHIS has planned to redirect funds from one program to another thereby making these funds unavailable for the originally appropriated program use. For example, in the animal welfare program $1.5 million was planned for redirection to another program in December 1982 and not released for program use until May 1983 when APHIS decided that the redirection of funds from the Animal Welfare Program was not necessary. Congressional approval is not required for simply planning redirection of funds regardless of the time that planning period covers. Were any other APHIS program funds planned for redirection during FY's 1983-1984?

Answer: APHIS redirected a total of $6,793,000 during FY 1983, but only from the joint U.S.-Mexican screwworm program. These funds were transferred to African swine fever (ASF) for the emergency in Haiti; the Puerto Rican cattle tick program for additional pesticide purchases and improved treatments; the biocontrol program for a rearing chamber for beneficial insects; the boll weevil eradication program in North Carolina and South Carolina; and the Mediterranean fruit fly program to cover costs of new outbreaks in Southern Mexico and Guatemala. There were no other redirections planned or implemented in FY 1983, other than the animal welfare situation.

In FY 1984, we do foresee a need to reprogram funds into two areas. The first is to cover costs of import inspection and export certification activities originally proposed to be funded by user fees. Legislation authorizing the collection of those fees is not yet enacted. The second area is to cover costs of increased workload in the interstate inspection program. We are now analyzing the funding and workload situation in other APHIS programs to determine potential sources for redirection.

Question: How long were planned periods of redirection in effect for each of the programs?

Answer: $2,500,000 was redirected in May 1983 from the screwworm program to the boll weevil eradication trial. In September 1983, $4,293,000 was further redirected from screwworm to the African swine fever and biocontrol programs, the cattle tick program in Puerto Rico, and the Mediterranean fruit fly program in Mexico and Guatemala.

Question: What effect did these actions have on the program's operation?

Answer: These actions did not adversely affect screwworm program operations in FY 1983. APHIS contributions to the joint program had a greater purchasing power that year due to the devaluation of the peso.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

GYPSY MOTH

Question: Is the reduction in funding in FY 1985 for gypsy moth a reflection of the diminished need or Federal concern for the problem?

Answer: The reduction in funding in no way represents diminished concern for the problems caused by this destructive pest. Rather, we have found that the movement of outdoor household articles - OHA - carrying gypsy moth life forms from the generally infested area of the Northeast is the major cause of spread to previously uninfested areas. Consequently, in October 1983, we instituted new OHA regulations which we expect will limit artificial spread. Much of the savings in the FY 1985 request is the result of the new regulations, which allow us to reduce or eliminate more costly activities while increasing the effectiveness of our overall program.

Question: Would the USDA support increased funds for the gypsy moth program should there be additional infestations this summer?

Answer: APHIS has worked with the States since 1907 and demonstrated techniques for eradicating isolated infestations. The States should be able to perform needed control work. In the event of an unexpectedly high number of isolated infestations, we would reassess our position to see if more Federal involvement would be necessary.

Question: In the Pacific Northwest, there is particular concern over the current infestations in Oregon and Washington and their impact on the timber industry. Could you provide for the subcommittee a breakdown of the number of acres infested by gypsy moth by State, the number of acres denuded or destroyed by gypsy moth by State, the type of trees affected, the cost of the damage caused by gypsy moths, the cost of an eradication program, and the combined Federal and State expenditures for the program.

Answer: We are discussing the possibility of using Forest Service funds to share the costs of eradicating isolated infestations in several States outside of the generally infested area of the Northeast. A breakdown of acres to be treated and costs in the Pacific Northwest follows:

	Treatment Area (acres)*	Estimated Total Cost
Oregon	12,300	$ 700,000
Washington	8,000	500,000
Total	20,300	$1,200,000

* The treatment block is somewhat larger than the infested area to assure more effective control.

We have no evidence of infestations in commercial forests. Rather, the area targeted for treatment is in populated areas.

The infestations are in the initial stages, no acres have been destroyed or denuded and no cost estimates have been made. The gypsy moth may attack over 500 species of trees, including those found in the Northwest. Oak seems to be the preferred host in the East, but experience shows that the gypsy moth will feed on many other species of trees or shrubs if preferred hosts are not present.

Question: What level of funding is intended to be spent for gypsy moth in Oregon in FY 84 and for what purpose? For FY 85 and for what purpose?

Answer: We plan to spend $53,900 detection and delimiting survey work in Oregon in FY 1984. If Forest Service funds are available, the Federal share of costs to combat isolated infestations will be about $250,000.

We expect the FY 1985 allocation to be less than FY 1984. Our FY 1985 request funds detection and delimiting trapping only in the generally infested area of the Northeast. Our major emphasis will continue to be strengthening the regulatory program in the Northeast aimed at reducing artificial spread in uninfested or low level infested States.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

AGRICULTURAL QUARANTINE INSPECTION

Question: The notes indicate a proposed increase of 12 staff-years for AQI activities in Maryland. Please describe why this increase is necessary.

Answer: The increase in AQI staff-years for Maryland reflects an agencywide policy to direct our resources to more vital Federal roles--such as the prevention of pest and disease entry. The 12 staff-year increase is partially offset by an 8 staff-year decrease in plant protection programs. By reducing our level of activities in these programs, we can shift personnel into the AQI effort. The net increase of 4 staff-years will provide more support for enforcement and direction of the Civil Penalties Act, and training for new AQI inspectors at the Frederick, Maryland, Professional Development Center.

Question: The notes indicate that APHIS works with Department of Defense in predeparture clearance of military personnel, equipment, etc., moving from overseas to the United States. How many staff-years and dollars are dedicated to this activity and does the Department of Defense reimburse the agency for any of these costs?

Answer: One APHIS employee works full time at Frankfurt, Germany, providing training and guidance to military personnel actually performing most predeparture inspections. We send inspectors to various points in Europe on a temporary basis for mass movements of military personnel and cargo to the United States. About 1.5 total staff-years and $80,000 in direct APHIS expenditures for salaries are involved. DOD reimburses APHIS for all nonsalary costs including travel, per diem, and training.

ANIMAL WELFARE

Question: The notes indicate that funding for the animal welfare program is being reduced because "Department resources should be made available for the highest priority, basic functions of national agricultural policy." Please describe why the enforcement of the Animal Welfare Act is not considered a high priority function of the Department.

Answer: We are committed to effective enforcement of the Animal Welfare Act but believe this can be done with a lower level of Federal resources and greater involvement by State, industry, and humane groups. We have proposed similar resource reductions in other animal and plant disease and pest control programs where more could be done by State and industry groups. On the other hand, we have proposed maintaining or increasing funding for functions where the Federal Government should assume either all or a significant share of the responsibilities, because the States and industry cannot always handle these areas alone. The functions include surveillance for diseases and pests, enforcement of laws designed to prevent the interstate spread of diseases and pests, and preventing the entry of exotics which includes our international activities.

Question: What authority is provided States, industry groups, and humane societies under the Animal Welfare Act to enforce the requirements of the Act? Please be specific.

Answer: The Animal Welfare Act authorizes only personnel of the U.S. Department of Agriculture to enforce the provisions of the Act. It provides no enforcement authority to individuals representing State, industry, or humane groups. These groups report alleged violations of the Act to APHIS. We then investigate these complaints and prosecute the violators.

Question: The explanatory notes indicate that the agency will support industry efforts at self regulation. Please describe what specifically the industry is doing to regulate itself.

Answer: The American Association for Accreditation of Laboratory Animal Care (AAALAC) has established requirements for research animal facilities that far exceed the USDA minimum standards. Research facilities wishing to belong to AAALAC must make application and receive an indepth inspection by AAALAC experts--usually veterinarians who are board-certified in laboratory animal care and medicine. These accredited facilities receive AAALAC reinspections approximately every 3-5 years in order to maintain their accredited status. The National Institutes of Health (NIH) recognizes AAALAC accreditation as complying with the NIH requirements for receiving grants and other Federal funds. Thus, although membership is voluntary, there is incentive for research facilities to qualify for membership in AAALAC. As the AAALAC requirements exceed USDA standards, there is little reason for USDA to continue regular and routine inspections of these facilities. However, occasional unannounced inspections will continue.

The American Association of Zoological Parks and Aquariums (AAZPA) also has established requirements and criteria for membership which exceed USDA animal care standards. By 1985, the AAZPA will require that all facilities comply with their requirements or be dropped from membership. Since membership in AAZPA carries a certain amount of prestige for the facilities, there is incentive for them to join and comply with requirements. As with accredited research facilities, there is little reason for USDA to continue regular inspections of AAZPA member facilities but unannounced inspections will be done from time to time.

CONSTRUCTION

Question: The notes indicate that $7,861,548 will be used in FY 1984 for lands and structures even though the notes submitted with the FY 1984 budget indicated that only $2,386,000 would be spent for such purpose. Please explain the inconsistency here.

Answer: The $7,861,548 reflects the estimated FY 1984 obligations for lands and structures at the time the FY 1985 budget was prepared. This amount includes $2,386,000 in direct appropriations under the FY 1984 Continuing Resolution and a carryover of $5,472,548 in unobligated funds from prior year appropriations.

The $2,386,000 shown in the notes submitted with the FY 1984 budget reflects the estimated FY 1984 obligations for lands and structures at the time the FY 1984 budget was prepared. At that time, the unobligated amounts available for carryover from previous years were not known. The FY 1984 figure in the FY 1985 budget is merely an update of last year's figure to reflect more current information. This same situation is likely to occur next year for the FY 1985 lands and structures estimate.

ENDANGERED SPECIES ACT

Question: What action will Plant Protection and Quarantine (PPQ) personnel take to ensure that an export shipment of plants that lacks the permit required by the Endangered Species Act or the Convention on International Trade in Endangered Species does not leave the country illegally?

Answer: Currently we have little control of exports. To help us improve that control, we have proposed regulations for the exportation of plants covered by the Endangered Species Act. We hope to have the regulations in place by FY 1985. A key part of the regulations would designate 24 ports through which all regulated plants would have to pass before export. This would give us control over legal shipments and allow us to check for the required permits. Plants shipped outside of the designated port system would be illegal and presumably seized by the importing country upon arrival.

Question: Will you seize the shipment? Impose a civil penalty? Initiate a civil or criminal investigation pursuant to the Act?

Answer: We are now drafting guidelines for the possible actions to take when we detect shipments without permits. We want to make use of all options available. For example, seizing illegal shipments from known repeat offenders would seem appropriate. Civil penalties may be imposed, serving as a deterrent to other potential illegal shipments. We have contacted the Fish and Wildlife Service to explore their conducting investigations for us through their Law Enforcement Division. Also, we have approached them about training our personnel.

Question: Has specific staff been assigned the responsibility for initiating and carrying out investigations and other enforcement actions against violators of the Endangered Species Act? How do you respond to evidence of such a violation, whether detected by inspectors at the ports or provided by informants?

Answer: We do not have specific staff assigned to investigate or carry out enforcement actions against violators. Pending final approval of the proposed regulations to improve APHIS control of exports, we are referring any substantive evidence we obtain to the U.S. Fish and Wildlife service Law Enforcement Division.

Question: How many such investigations have been carried out by PPQ since 1978? How many are currently under way?

Answer: APHIS has not conducted any investigations, although the Department's Office of Investigation has performed several. Until we can develop our expertise in the field of plant wildlife enforcement, we are working with the Fish and Wildlife Service to conduct investigations.

Question: Does APHIS review plant health documents in your files to uncover possible violations?

Answer: The large volume of phytosanitary certificates and the number of Federal and State inspectors providing them precludes review of each plant health document. However, the proposed regulations will greatly reduce the number of personnel and locations issuing the certificates for plants covered by the Endangered Species Act. This may make some level of review more feasible.

Question: What actions has PPQ taken to ensure that all its port inspectors and supervisors and all employees of cooperating State agencies understand and implement trade controls required by the Endangered Species Act or CITES?

Answer: We have developed and provided training and identification tools to our inspectors and supervisors and some State cooperators. This provides the basis for understanding endangered species regulations in order to meet the APHIS responsibility.

Question: How do PPQ employees go about their task of verifying that the plants in particular shipments really are the species approved on the accompanying permit? To what technical resources do they have access to assist them in identifying the species?

Answer: PPQ inspectors at the plant inspection stations routinely check shipments for compliance with regulations. For more identification expertise, we have placed six trained botanists at critical points around the country who are specialists in plant taxonomy. The botanists have access to all worldwide published reference material on identification and PPQ's own reference material, and work with other field personnel with botanical experience. In addition, we have access to information from institutions such as the Smithsonian for further botanical taxonomic expertise.

GOLDEN NEMATODE

Question: What work related to golden nematode will be continued in FY 1985? What will be discontinued under the proposed budget?

Answer: Detection survey and regulatory work in conjunction with the State of New York will continue in FY 1985. The State will also manage a resistant variety program through crop rotation; alternating resistant varieties, non-host crops and susceptible varieties. Soil fumigation will be discontinued due to ground water contamination and crop residues. Methods development work is no longer necessary due to the effectiveness of control techniques and, therefore, will be discontinued.

INTERNATIONAL PROGRAMS

Question: You have requested additional funds to station employees overseas to help build U.S. export markets. Have the sites selected been coordinated with the Foreign Agricultural Service and the General Sales Manager?

Answer: Building U.S. export markets is not the principal mission of our Foreign Service employees. They are stationed overseas to provide an early warning of foreign disease problems and to aid in improving U.S. access to foreign markets for agricultural products. We do, however, work with the attache service of the Foreign Agricultural Service (FAS) in Washington, DC, to select the location of all APHIS overseas offices. Once we select a foreign location to place an APHIS representative, we enter into a memorandum of understanding with FAS which outlines each agency's responsibilities. While at the post, the APHIS representatives keep the in-country Foreign Agricultural attache informed of all important activities. So far, we have coordinated with FAS for the new posts in the Philippines and the Dominican Republic.

Question: Please describe how these sites have been selected.

Answer: International trade considerations and protection of U.S. agriculture determine the need for and location of APHIS offices in foreign countries. In selecting locations, we looked for countries which were representative of different geographic regions of the world. We also consider countries where there is significant international trade or good agricultural trade potential. Our overseas representatives are involved in disease reporting, export market protection, and scientific exchanges with international organizations and foreign governments. We locate our foreign offices where these objectives can best be served.

Question: The notes indicate that in FY 1985 there will be the initiation of work in Brazil and the Dominican Republic equal to 1 staff-year in each country to support animal health work. What will these staffs be doing in these locations and what justification is there for initiating work in these countries at this time while reducing work in this country?

Answer: The APHIS representatives stationed in the Dominican Republic and Brazil will analyze data collected on the incidence of animal diseases in the Caribbean and South America. This will provide U.S. officials with an early warning of disease outbreaks and allow time to make plans to prevent the disease from entering the United States. These people will consult on the animal health policy of international organizations by exchanging scientific information about disease control and assisting other countries in developing their own emergency animal disease contingency plans. These onsite personnel represent U.S. livestock interests in the international area and will work with officials of foreign governments to negotiate importation requirements which could serve as nontariff barriers to the entry of U.S. products. Further, as experts in animal health, they can be consulted on technical matters during negotiations of bilateral trade agreements and provide information about the quality of animal health standards maintained in the United States.

The APHIS mission includes the protection of U.S. livestock from diseases exotic to the United States so that domestic and international markets are not closed to these products due to their health status. This objective is effectively supported through our close contact with animal health officials of foreign governments. The prevention of disease from entry into the United States is a less costly alternative than conducting a full scale eradication program once a disease is here. The surveillance work carried out by our overseas personnel supports our efforts to prevent exotic diseases from entering the United States and provides us with data to develop plans to respond to these diseases should they occur here. Also, U.S. producers need current information about the animal health requirements of importing countries in order to prepare livestock and animal products for export. The APHIS representatives provide this information and work with foreign animal health officials to negotiate and interpret standards for animal imports.

MEDITERRANEAN FRUIT FLY

Question: What is the current status of the Medfly program? We understand that progress in this program has not been as expected for FY 1984.

Answer: Mexico declared the Medfly eradicated in September 1982. However, outbreaks have reoccurred along the Mexico-Guatemala border. Political unrest and low worldwide coffee prices have left much of the coffee in the area unharvested. As coffee is the major larval host for Medfly, population levels have increased, requiring quick action to reclaim progress already made.

Cooperatively with Guatemala and Mexico, we have intensified program operations, including aerial spraying and sterile fly production at the new Guatemala facility. We redirected funds in

FY 1983 and used contingency funds in FY 1984 to cover the costs of these activities.

NOXIOUS WEEDS

Question: What level of funding will be dedicated to noxious weed activities in FY 1985 specifically relating to inspection at ports-of-entry?

Answer: The total FY 1985 noxious weeds funding of $112,000 will be used for plant and seed identification support at ports-of-entry. Our agricultural quarantine inspection program personnel watch for noxious weeds and seeds as part of the ongoing port-of-entry effort.

Question: Please describe briefly the activities and progress related to each of the demonstration eradication projects for noxious weeds and the level of funds dedicated to each.

Answer: The common crupina eradication project began in June 1983 in Clear Water and Lewis Counties, Idaho. One eradication site consists of 286 acres of infested land in a 6,400 acre area one mile southeast of Orofino. The other site at Five Mile Creek is 78 acres of infested land in a 849 acre area. Herbicides were applied to the infested areas in the fall of 1983 and in the spring of 1984. Appraisal surveys made in the fall of 1983 and the spring of 1984 indicate that all common crupina seed production had been prevented. APHIS made $139,000 available for this project in FY 1984.

Approximately one-half of the goatsrue infested area in the irrigated Cache Valley, Cache County, Utah, was part of an eradication program in FY 1983. The program eliminated tall flowering goatsrue plants, leaving only small goatsrue seedlings. The seedling plants are being treated to ensure that none bloom and produce seed. The Cache County Weed District is working to suppress goatsrue in the remainder of the area. APHIS will contribute $175,000 to the goatsrue effort in FY 1984.

During FY 1983, the irrigation canal system in the Imperial Valley, California, was stocked with surgically sterilized white amur fish for biological control of hydrilla. A total of 2.6 miles of irrigation canal was stocked with approximately 35 fish per acre. At first control was erratic, but by October 1 the canals were free of hydrilla. This method of control appears to be economical and effective, and causes no residue problems. We will spend $100,000 in California and $20,000 in Florida for hydrilla work in FY 1984.

USER FEES

Question: You have requested funds to continue phytosanitary inspections. What is the volume of exports that require this inspection? What would be charged per inspection should user fees be implemented to cover these costs?

Answer: About 120,000 shipments require phytosanitary inspection each year. APHIS conducts about 70 percent of the inspections, with authorized State personnel performing the rest. The proposed fee would only cover APHIS costs and would probably be set on an hourly basis to accurately cover Federal expenditures. Our research indicates that the average inspection takes 78 minutes and APHIS costs total about $24. The fee would reflect this cost structure, but vary by individual case.

Question: What costs excluding capital expenditures are not now covered by fees charged importers of animals into the United States? Please provide a specific figure for FY 1985.

Answer: The costs of the examination of animals by APHIS veterinarians and the laboratory tests are not now covered by user fees. The cost to provide these services will be $400,000 in FY 1985.

Question: Do other countries charge U.S. exporters for similar inspection and quarantine activities? Please provide some specifics.

Answer: Generally, when the livestock and products of U.S. producers are sold for export they become the property of the foreign purchaser upon leaving the United States. The importer is then responsible for any fees associated with the inspection and quarantine of the animal or product upon arrival in the destination country. U.S. exporters incur certain costs prior to the export. USDA must certify animals and products offered for export to be free of certain diseases. The health certification varies depending upon the requirements of each receiving country. The procedure generally involves tests and an inspection at the farm of origin, an inspection and 5-hour rest period at the point of embarkation, and USDA endorsement of the health certificate. Most of the laboratory tests are paid for by the exporters, however, the APHIS National Veterinary Services Laboratories perform some tests free of charge when the work cannot be done at another diagnostic laboratory. Inspection of the farm of origin can be done either by an accredited veterinarian at the owners expense or by a Federal veterinarian free of charge depending on the requirements of the importing country. USDA now performs the inspection, supervises the 5-hour rest period at the point of embarkation, and endorses health certificates free of charge. In all but five countries the export certification work is done by government veterinarians at no cost to the exporters of that country.

Question: What activities under agriculture quarantine inspection would not be paid for by user fees under the proposed legislation?

Answer: The proposed legislation would apply only to phytosanitary certification of plants offered for export. All other program activities, including airport, seaport, and land order station inspections, would continue to be funded by direct appropriations.

Question: The budget proposes to implement a system of user fees to defray some of the costs of the brucellosis eradication program. What has been the reaction of the cattle and dairy farmers to this proposal and please briefly describe what is being proposed?

Answer: We have met with representatives of the major livestock industry associations of the United States and received correspondence from a few States and industry organizations. Most of these groups have expressed opposition to the checkoff proposal.

The proposed brucellosis checkoff system would be an assessment on livestock at some point during marketing. The alternatives include collecting a fee on all cattle and calves sold through livestock markets, all cattle and calves slaughtered, or some combination of the two.

The checkoff program could be mandatory or voluntary. Either option will require congressional authorization. Under a mandatory checkoff proposal, all markets and/or slaughter establishments would be required to collect an assessment on livestock marketed or slaughtered. Under the voluntary proposal, there would be an industry referendum to approve or disapprove a checkoff system. If the referendum passed, all markets and/or slaughter establishments would be required to participate.

The system is being proposed since we believe strongly that those who benefit from the program should bear a portion of the costs. Our experience has also shown that if producers provide financial support they will help make the program more effective.

The proposed legislation authorizing the checkoff system will include language directing the Secretary of Agriculture to establish a national advisory committee to provide direct oversight of the system. This committee will represent all parts of the cattle industry and all geographic areas of the country. The committee will advise the Secretary on such matters as the size of the checkoff assessment, the collection and distribution of funds, and program priorities. It will also monitor the effectiveness of the checkoff system and assure industry participation in the brucellosis eradication program.

WITCHWEED

Question: What is the status of the witchweed eradication program and what progress is being made towards eradication?

Answer: The witchweed eradication program continues to make progress due primarily to sound control activities and the availability of more effective herbicides. Of the 419,637 acres identified as infested since the program began, 198,643 have been released from quarantine. Witchweed remains confined to North Carolina and South Carolina and we are confident that the tools are available for the States to finish the eradication effort in conjunction with our regulatory program.

AGRICULTURAL MARKETING SERVICE

STATEMENT OF VERN F. HIGHLEY, ADMINISTRATOR

Mr. Chairman and Members of the Committee, it is an honor to appear here today to discuss the programs of the Agricultural Marketing Service (AMS) and our FY 1985 budget proposal.

Role of AMS

AMS is first and foremost a service-oriented agency. In FY 1984, approximately 73 percent of our program funding will be derived from fees charged to the users of our services. While most of our fees are collected for commodity grading and acceptance services, we also provide fee-for-service work for grain warehouse examination, issuing licenses under the Perishable Agricultural Commodities Act, monitoring industry-funded research and promotion efforts, and printed food commodity market news reports. In 1985, we hope to transfer funding from appropriations to user fees for the monitoring of marketing agreements and orders, processing new plant variety protection applications, providing cotton and tobacco printed market news reports, and examining cotton warehouses.

The remaining 27 percent of AMS' FY 1984 funding was appropriated to support a variety of marketing improvement and food safety programs, including market news, egg products inspection, commodity standardization, and wholesale market development. AMS is also responsible for administering the Federal-State marketing improvement program which provides matching funds to States for use in solving State and local marketing problems.

Section 32

Another important AMS activity is our Section 32 surplus removal program. In FY 1985, AMS will purchase approximately $350.9 million in surplus commodities that will be used in Child Nutrition Programs. In addition, we will also issue contracts in behalf of the Food and Nutrition Service for about $45 million in commodities designated by FNS for specific uses in their programs.

New AMS Responsibilities

Passage of the Dairy and Tobacco Adjustment Act of 1983 added new responsibilities to AMS for inspecting imported tobacco and monitoring a national dairy promotion program. AMS is now responsible for grading all imported tobacco, except cigar and oriental types, before it enters the U.S. This grading information will assist Congress in the oversight of the No Net Cost Tobacco Program. AMS will also monitor a newly established national dairy promotion program which will be financed by all producers in the 48 contiguous States.

Cost Reduction Efforts

Because such a large percentage of AMS programs are voluntary and user supported, it is paramount that the agency provide services at the lowest possible cost. AMS program managers continually reevaluate program operations to improve service delivery or reduce service costs. Industry suggestions on how to reduce costs or improve service are encouraged by AMS.

Our employees are conscious of the needs of their serviced industries and we take pride in our record of cost reduction. For example, changes in certification requirements on meat shipments to Japan reduced industry certification charges by approximately $1.5 million annually. Similarly, cross-utilization of employees between AMS grading and market news programs and between AMS and other agencies such as the Food Safety and Inspection Service has reduced industry costs without compromising the quality of our programs. Yearly savings of approximately $400 thousand are now possible for the Commodity Credit Corporation by using AMS milk market administrators to carry out the collection, auditing and data transmission elements of the CCC "Dairy Collection Plan."

Service Improvement Efforts

AMS efforts to improve service have been as successful as our cost reduction efforts. For example, in 1983 we expanded electronic recording of cotton classing information to 17 of 20 classing facilities. In 1984, we plan to expand this service to the remaining three locations. This information makes classing data available on a more timely basis to both the ginner and the farmer, thereby enhancing farmers' knowledge of fiber qualities and improving their marketing opportunities.

In the market news program, we are continuing to improve information dissemination capabilities so we can provide farmers with information more quickly and in a form more adapted to their needs. Our pilot project with the Public Broadcasting System (PBS) to provide market news information via a television captioning system involved nine test stations. This project was so successful that PBS is now providing the service to an additional 32 stations across the country.

Those few examples of cost reduction and service improvement efforts are listed to provide the Committee with an idea of the importance we attach to our role as a service agency. AMS management continues to stress the need for creative approaches to the delivery of low cost, high quality services.

FY 1985 Appropriation Request

We are requesting $27.9 million for marketing services programs. In addition, we will use $2.9 million from Section 32 to support our commodity procurement program. The funding level for FY 1985 reflects a reduction of $9.7 million from the FY 1984 funding level. We can make $1.9 million of this reduction without changes in legislation. The remaining reductions would require specific legislative changes.

Marketing Services Appropriation Request

The $27.9 million marketing services appropriation request for FY 1985 reflects a net decrease of $2.8 million; $3.6 million in program reductions and an increase of $836 thousand to annualize 1984 pay costs and to restore pay costs absorbed in 1984. Those proposals which do not require legislative changes to implement are as follows:

-- A decrease of $355,000 for cotton warehouse examination to convert this program to a full user fee basis. Other Federally licensed warehouse operators are currently paying fees. This change would provide greater uniformity in funding of the warehouse examination programs and carry out the intent of Congress in passing the Omnibus Budget Reconciliation Act of 1981.

-- A decrease of $1,543,000 to eliminate the wholesale market development program. The technical information necessary to update obsolete wholesale market facilities and marketing practices is available to States, local governments, and industry without Federal assistance.

-- An increase of $75,000 to fulfill responsibilities assigned AMS under the President's National Plan of Action for Emergency Mobilization Preparedness.

-- An increase of $125,000 to establish within AMS an Office of Agricultural Labor Affairs. This Office would represent the interests of agriculture in proceedings before the Departments of Labor and Justice during this period of immigration reform.

-- A decrease of $35,000 in potato research and promotion. These funds are no longer needed because of recently enacted legislation which requires that industry reimburse AMS for oversight expenses.

-- An $18,000 decrease for commodity purchase service activities. This amount was retained in the marketing services fund when this function was transferred to the Section 32 fund during FY 1983. The reduction will complete the funding transfer of this program.

-- A decrease of $50,000 associated with improved efficiencies in administrative support activities and $37,000 associated with a phased reduction of positions in grades GS/GM 11-15.

The proposals which require changes in current legislation are as follows:

-- A $1,506,000 reduction associated with proposed legislation that would permit the Department to conduct discretionary inspection of egg processing operations and reduce the number of required shell egg surveillance visits from four to one per year. This proposed legislation is included in a bill that would give the Secretary more discretion in administering the meat and poultry inspection program.

-- A decrease of $300,000 associated with legislation that would allow us to charge fees for printed cotton and tobacco market news reports in order to ensure equal treatment for all commodity groups. Currently, fees are charged for subscribers to dairy, poultry, meat, livestock, egg, grain, naval stores, and fruit and vegetable printed reports.

-- An amendment to the Plant Variety Protection Act to enable us to carry out the program on a full user fee basis for certificate applications received after FY 1984. Currently, fees collected are deposited in the general revenue account of the Treasury and are not available for program expenses. Our 1985 request allows AMS to retain all fees collected in a no-year fund. We are not proposing a reduction in appropriations for this program at this time. We anticipate there will be approximately a two and one-half to three year application backlog when this fee proposal is implemented in FY 1985. Work on backlogged certificates must be carried out under appropriated funding since the fees accompanying these certificates have already been given to Treasury. When the backlog is cleared, we will no longer need appropriations and we will propose their elimination.

Payments to States

Our budget request once again proposes elimination of the $1 million Payments to States program. We strongly feel that it is more appropriate for State Departments of Agriculture to conduct efforts aimed at resolving State and local marketing problems.

Section 32 Administrative Expenses

For FY 1985 we are proposing a decrease of approximately $6 million for the marketing agreements and orders program. Legislation has been submitted which would require industry to reimburse AMS for the administrative expenses associated with marketing agreements and orders. Currently this program is funded from Section 32.

Section 32 Commodity Purchases

In the Section 32 program, we are proposing $350.9 million for commodity purchases, all of which will be used for Child Nutrition Program purchases. This is an increase of $5.5 million over the FY 1984 Child Nutrition purchase level. Overall, Section 32 commodity purchases will decrease by $80.5 million because emergency surplus purchases are not anticipated during FY 1985. Should a need for emergency purchases occur, we will have $225 million in the contingency reserve to fund unforeseen surplus removal projects.

Budget Adjustments under Current Law and Proposed Legislation

In summary, under current law the AMS appropriation request for FY 1985 will be reduced by $1.9 million and by an additional $7.8 million if proposed legislation is enacted. Our budget proposal would shift the $355 thousand cotton warehouse examination program to user fee funding without legislative change. If our entire legislative package is passed, an additional $6.6 million in programs will be changed to user fee funding. I am including a table with my statement that summarizes the impact of our proposed actions both with and without legislative changes. The overall impact of our proposed budget changes would be to increase the proportion of AMS funds derived from user fees from 73 percent in FY 1984 to 75 percent in FY 1985 under current law, and to 80 percent when our proposed legislative package is enacted.

This concludes my statement, Mr. Chairman. I would be happy at this time to respond to any questions you or other Members of the Committee may have.

AGRICULTURAL MARKETING SERVICE

1985 Budget Proposal
(Dollars in Thousands)

	Proposed Appropriation Changes			Proposed User Fee Changes		
Marketing Services:	No Legislation Required	Legislation Required	Total Change	No Legislation Required	Legislation Required	Total Change
Cotton and Tobacco Market News	--	-$300	-$300	--	+$300	+$300
Egg Products Inspection	--	-1,506	-1,506	--	--	--
Cotton Warehouse	-$355	--	-355	+$355	--	--
Plant Variety Protection Act .	--	--	--	--	--	+355
Commodity Purchase Services Adjustment	-18	--	-18	--	+350	+350
Emergency Preparedness	+75	--	+75	--	--	--
Agricultural Labor Affairs ...	+125	--	+125	--	--	--
Potato Research & Promotion ..	-35	--	-35	--	--	--
Wholesale Market Development .	-1,543	--	-1,543	--	--	--
Pay Costs	+836	--	+836	--	--	--
Reductions in Positions GS/GM 11-15	-87	--	-87	--	--	--
Total, Marketing Services	-1,002	-1,806	-2,808	+355	+650	+1,005
Federal-State Marketing Improvement Program	-1,000	--	-1,000	--	--	--
Section 32 Administrative Expenses:						
Marketing Agreements & Orders	--	-5,995	-5,995	--	+5,995	+5,995
Pay Costs - Marketing Agreements and Orders	+97	--	+97	--	--	--
Pay Costs - Commodity Purchases Services	+8	--	+8	--	--	--
Total, Salaries and Expenses	-1,897	-7,801	-9,698	+355	+6,645	+7,000

QUESTIONS SUBMITTED BY SENATOR COCHRAN

MERGER OF AMS AND FGIS PROGRAMS

Question: Your warehouse examination activities were recently transferred to ASCS. Is there any plan to combine AMS and FGIS inspection, grading, and certification activities?

Answer: The Department has no plans now to merge AMS and FGIS program activities. The only discussion I can recall with respect to merging part of FGIS' programs into AMS came in a 1982 GAO report entitled "Agricultural Marketing Act Inspections should be Administered by Single USDA Agency." This report recommended the merger of AMS and FGIS activities authorized by the Agricultural Marketing Act of 1946. In responding to the GAO report, the Department agreed to study the feasibility of cross-utilizing AMS and FGIS personnel to monitor non-graded activities. From this study it was agreed that AMS and FGIS would:

-- Initiate interagency transfers of activity whenever practical to eliminate duplication of personnel;

-- Cross-utilize personnel whenever practical by establishing interagency reimbursable agreements and assigning the responsibility for sampling all products to the Agency that could provide the most efficient service; and,

-- Assign the responsibility for new products with mixed composition to the Agency responsible for the predominate component, providing that the Agency could furnish the most efficient service.

WAREHOUSE TASK FORCE

Question: The Secretary announced that he will appoint a task force to study how USDA can further strengthen and improve its warehouse program. This will come after the transfer of warehouse functions. Doesn't it seem illogical to make a change such as this immediately before a group will study what changes should be made?

Answer: The decision to transfer warehouse examination activities to ASCS before the task force made their report was a sound decision. The location of this program within USDA, whether in AMS or ASCS, will not affect the recommendations of the task force. Currently ASCS provides 77 percent of the funding for the warehouse program. Because such a high percentage of the program work is performed for ASCS for inspection of CCC-owned or pledged commodities, it is only reasonable that ASCS should have more direct input into program operations.

Question: The task force will include representatives of the warehouse industry, state warehouse regulatory officials, and USDA. Conspicuously missing from the task force, are representatives of the owners of the grain--the producers. Shouldn't they have a voice in how their grain is handled?

Answer: Department officials have carefully considered the composition of the warehouse task force and are confident that producer interests will be well represented. At least two members of the task force will be representing national organizations of farmer owned cooperatives. It is expected that these representatives will express the views and concerns of their farmer membership. In addition, several members of the task force representing other national organizations are presently active independent warehouse owners and/or operators. Past experience with these individuals on other warehouse issues indicates that they are very cognizant of the importance of their producer customers and strongly represent their interest because of the importance of maintaining their business relationship.

GRADING AND CERTIFICATION SERVICE USE

Question: Approximately what percentage of producers in the various industries for which you provide grading and certification services actually use AMS services?

Answer: Use of AMS grading and certification services by producers must be viewed both directly and indirectly. Direct use is best illustrated by the cotton and tobacco grading programs which are used by approximately 98 percent of the producers of these commodities. In the indirect use, producers rely on grades as marketing communication to aid them in planning their production and marketing to efficiently meet consumer demands. For example, the importance of beef grading programs to livestock and meat producers is reflected in the fact that 70 to 75 percent of all beef sold at the retail level is federally graded. Concurrently, these grades, through market reports and other mediums, provide uniform market terminology which enables producers to make informed decisions in the daily buying and selling of livestock and meat.

PLANT VARIETY PROTECTION PROGRAM

Question: Your budget notes say that you "encourage the development of novel varieties of sexually reproduced plants." How do you encourage this? Do you work with the Agricultural Research Service in any way in this promotion?

Answer: AMS "promotes" or "encourages" the development of novel sexually reproduced varieties of plants by granting to breeders of such varieties exclusive use of the varieties for an 18-year period. During that time breeders can reproduce and sell the seeds of the protected variety or enter into royalty arrangements with other growers of the variety. Larger sales and in some cases higher prices for seeds of the protected variety provide the economic incentive which encourages breeders to develop novel varieties. AMS maintains a close working relationship with the Agricultural Research Service in performing the technical aspects of the plant variety protection program. AMS will contact an ARS crop specialist to assist in analyzing and researching plant characteristic descriptions.

MARKETING AGREEMENTS AND ORDERS

Question: What commodities are now produced and sold under marketing agreements and orders?

Answer: The commodities produced and sold under marketing agreements and orders include milk, oranges, grapefruit, lemons, limes, avocados, nectarines, pears, plums, peaches, apricots, cherries, peanuts, prunes, grapes, papayas, cranberries, olives, potatoes, onions, tomatoes, celery, melons, almonds, filberts, walnuts, dates, raisins, hops, and spearmint oil. Marketing orders for these commodities are established on a state or regional basis.

MANAGEMENT SUPPORT TO OTHER AGENCIES

Question: What type of "management support" referred to in your budget notes is provided for the Office of Transportation, the Packers and Stockyards Administration, the Agricultural Cooperative Service, and the Federal Grain Inspection Service?

Answer: Currently, AMS provides varying levels of administrative support to these agencies in such areas as personnel administration, budget and finance, administrative services, and statistical and computer services. This servicing arrangement provides economies of scale to the serviced agencies which would not be possible by having separate administrative units within each serviced agency.

GRADER QUALIFICATIONS

Question: Your budget notes indicate a wide variance in employment levels throughout the year due to the seasonal nature of some grading and inspection programs. What functions are performed by those who only work part of the year? What qualifications do you require of these people?

Answer: The largest use of seasonal personnel occurs in our cotton, tobacco, and fruit and vegetable grading programs. For the most part these seasonal workers are agricultural commodity graders. The general qualifications are:

- Specific knowledge of the official U.S. grade standards for agricultural commodity groups;
- Knowledge of specific elements of agricultural product processing, transportation, storage, or condition which affect the products' acceptability, and quality; and,
- Skill in applying the procedures, techniques, and methods required to determine product acceptability or grade, and skill in performing various types of inspections.

MARKET NEWS USER FEES

Question: Your budget notes say that you now charge subscription fees to cover postage and handling for your market news reports. You also show that 96.8 percent of the total cost of the market news programs is charged to taxpayers. What does this 96.8 percent fund?

Answer: The appropriated funds provided to the market news program are used to collect, analyze, interpret, and disseminate current market information on most agricultural commodities pertaining to trade conditions, movement, price trends, and prices by class, grade, weight, and volume. Commodities covered include livestock, meat, grain, fruits and vegetables, poultry and eggs, cotton, dairy products, tobacco, and related items.

Federal reporters are responsible for covering markets of national and regional significance. In addition, they provide technical supervision to State reporters in 48 States that have market news cooperative agreements with the Agricultural Marketing Service for the primary purpose of covering local markets. This supervision is provided to promote national uniformity in reporting procedures and application of USDA grade standards.

FEE IMPACT

Question: What has been the impact of charging fees for those publications?

Answer: Since the implementation of user fee charges in August, 1982 for all except cotton and tobacco printed reports, there has been a decline in the number of subscribers. The decline has primarily been for reports covering commodities that are available in a more timely form such as radio, television, and automatic telephone answering devices. Printed reports for some commodities are not readily disseminated by a more timely method because of length or number of items. These reports have maintained a high percentage of subscribers on the mailing list.

Printed market reports are basically historical information by the time they are received by the subscriber. Our current efforts are aimed at disseminating market information through methods more timely than printed market reports. The decrease in the number of printed reports requested is not an indication of a decrease in the availability of market information. Rather it is an indication that we are concentrating our resources on making market information available on a more timely basis to the farming community.

GRADING FRAUD OR ABUSE

Question: Do you find much fraud or abuse in the adherence to commodity quality standards?

Answer: Federal graders or federally supervised State graders are the only persons permitted to officially apply U.S. grades for most commodities. I am happy to say that the instances of proven fraud or abuse of grade labels have been very few.

However, because of the potential for fraud and abuse, we are stepping up our detection efforts, as well as establishing systems for following up and eliminating identified program weaknesses.

SERVICE COMPLAINTS

Question: In your statement, you mention that since your services are voluntary and user-supported, you make a special effort to provide services at the lowest possible cost. You also say you encourage industry groups to suggest ways to cut costs or improve services. Do you receive many formal complaints concerning the cost or quality of services you provide?

Answer: Virtually no formal complaints have been received concerning the cost or quality of the services we provide. For example, AMS raised the cotton grading fee last year and received only 30 to 40 postcards questioning the increase. Furthermore, complaints about the grade assigned amounted to less than one-half of one percent of the responses received. Our constant efforts to respond to the needs of industry and to keep costs to a minimum keep complaints about the cost or quality of our services to a minimum.

CARIBBEAN BASIN INITIATIVE

Question: How much do you plan to spend for your part in the Caribbean Basin Initiative? What functions will you perform in the Initiative?

Answer: Total AMS expenditures for our part of the Caribbean Basin Initiative (CBI) will amount to $13,000 for FY 1985. This amount will cover salary costs for AMS personnel. Travel costs and other miscellaneous expenses will be paid for by the Office of International Cooperation and Development, or other agencies involved in funding CBI activities such as the Agency for International Development.

Our functions in the Initiative will be to act as consultants and to participate as speakers at meetings in order to:

-- Provide technical material and information concerning the development of quality standards and inspection instructions for applying grade standards;

-- Discuss proposed market news activities; and,

-- Discuss requirements imposed on imported fruits, vegetables, and specialty crops.

PROPOSED EGG INSPECTION CHANGES

Question: How much will less-than-continuous inspection of egg processing plants and reduced frequency in egg inspection of shell handling operations save the Department?

Answer: The proposed switch to less-than-continuous inspection for certain non-egg breaking operations and a switch to one yearly inspection of shell egg handlers from the current four inspections will save AMS $1,506,000. Most of this money is now reimbursed to State Departments of Agriculture for their shell egg surveillance work.

Question: What confidence do you have that consumers will remain protected from inferior egg products if you inspect plants less frequently?

Answer: As presently proposed, we feel confident that less frequent inspection of some egg products processing operations can be accomplished with little if any impact on the wholesomeness and quality of processed egg products. We intend to maintain continuous inspection during initial breaking and segregation of eggs to assure that only wholesome, unadulterated eggs are used in processed egg products. However, we believe inspection coverage can be safely reduced in certain processing operations after consideration of factors such as the public health-risk potential of the product being processed, the type of processing activity involved--pasteurization, drying, or packing, and the plant's history of compliance. By assessing these factors, we believe that less-than-continuous inspection can be implemented at some locations without affecting USDA's present ability to assure that only safe and wholesome egg products reach consumers.

PLANT VARIETY PROTECTION ACT

Question: Why does AMS, rather than the Patent and Trademark Office issue certificates of plant variety protection for novel varieties of plants?

Answer: During House debate on the Plant Variety Protection Act (PVPA) legislation in December 1970, Congressman Poage, then Chairman of the Agriculture Committee, stated that PVPA was being placed in USDA "under a form similar to patent papers, but which will be handled by USDA because it involves plant seeds over which UDSA has a special interest." USDA has production and research expertise in virtually all crops of economic importance. The type of examination to determine novelty for sexually reproduced varieties is vastly different and more complex than for asexually propagated varieties which are patented by the Patent and Trademark Office. Close liaison with other USDA programs is essential for efficient and effective administration of PVPA. Ready access to research specialists in the Agricultural Research Service greatly facilitates the examination process.

INDUSTRY RESEARCH ASSESSMENTS

Question: Who does the research for which assessments are collected from various industries? Do they work with the Agricultural Research Service? How does their work differ from specific industry projects in ARS?

Answer: The industry representatives who serve on the various research and promotion boards present to the Secretary of Agriculture a plan detailing what research and promotion activities will be conducted as well as how much they intend to spend on those efforts. The Secretary ensures that proposed industry research efforts are coordinated with current or planned USDA efforts. Industry research efforts are closely coordinated and often jointly funded with ARS research projects. Those industry projects where ARS or other USDA agencies have no research ongoing or planned may be contracted for by the various boards.

WHOLESALE MARKET DEVELOPMENT

Question: Your budget notes state that programs are "being developed to address specific marketing problems and help to identify approaches that reduce marketing costs." Yet you ask for no funding for this program, and a table in the notes shows that no research projects will be completed in FY 1985. Who is going to be developing these programs?

Answer: Projects currently and previously funded through this program for the development and improvement of major wholesale market facilities have produced plans which can be adapted for use in other locations. Because these studies are made available to anyone interested in such a project, State and local governments or the private sector can easily continue these efforts without Federal assistance.

EMERGENCY MOBILIZATION PREPAREDNESS

Question: What responsibilities are assigned to AMS under the President's National Plan of Action for Emergency Mobilization Preparedness?

Answer: We will provide that information to the Committee.

[CLERK'S NOTE: The President's National Plan of Action for Emergency Mobilization Preparedness is classified as "confidential" by the Federal Emergency Management Agency, and, therefore, cannot be made a part of the public record.]

AGRICULTURAL LABOR AFFAIRS OFFICE

Question: You propose to establish an Agricultural Labor Affairs Office to serve as the Department's liaison with the Departments of Labor and Justice to protect agricultural interests when these Departments begin to enforce new immigration legislation. The manner in which you state your request in the budget notes sounds as if you plan to ensure that enough illegal aliens can come into the country at harvest time to assure farmers of adequate labor. Could you clarify your position on this?

Answer: We believe that the Department of Agriculture should become more directly involved in representing farmers' interests in agricultural labor matters because: many farmers have difficulty obtaining qualified laborers who are willing to perform the required tasks; there is always extreme peril involved in the timing requirements for harvesting many agricultural commodities, especially highly perishable ones, which makes the need for a flexible labor supply a critical issue.

Also, Federal laws require agricultural employers to go through a lengthy process to hire domestic employees before they can hire documented foreign employees. There is nothing in our plans to have the Department of Agriculture be a party to illegal immigration. Our only objective is to be of assistance to farmers in solving agricultural labor problems.

Question: What will this Office do?

Answer: The purpose of the proposed Agricultural Labor Affairs Office is to establish a systematic agricultural labor policy that will ensure an adequate supply of labor to facilitate agricultural production. The primary functions of the Office will be to:

-- Develop, analyze and recommend agricultural labor policies and legislation to the Secretary;

-- Contribute to and monitor the development and collection of agricultural labor data;

-- Represent the Department at government and private sector meetings and seminars where agricultural labor is being discussed or where discussions could have an impact on agricultural labor policy;

-- Coordinate and evaluate existing USDA labor activities and develop and recommend changes when needed; and,

-- Respond to all appropriate inquiries made to the Department concerning agricultural labor policy and programs.

Question: Who in the past has looked after agricultural labor interests?

Answer: Prior to Secretary Block's decision to establish an Agricultural Labor Affairs Office, agricultural employees' and employers' interests were subject to fragmented representation from several Departments and agencies of the Federal Government.

CHANGES IN GEOGRAPHIC BREAKDOWN TABLE

Question: The Geographic Breakdown of Obligations and Staff-Years in your explanatory notes shows that Maryland's funding will be cut by 75 percent and staff-years will be reduced by almost 70 percent. For Fiscal Year 1984, Mississippi's allocation was cut by over 50 percent from Fiscal Year 1983. Could you explain these cuts?

Answer: The reduction in funding and staff-years in Maryland between FY 1984 and FY 1985 reflects the elimination of the wholesale market development program. The budget proposes a reduction of approximately $1.5 million for FY 1985, of which approximately 75 percent is spent from the Beltsville, Maryland wholesale market development field office.

The reduction in funding and staff-years in Mississippi between FY 1983 and FY 1984 reflects the Congressionally-approved switch of the cotton grading program from being partially user fee funded to being fully user fee funded. The Geographic Breakdown contains only appropriated funding and staff-years. The funding for user funded programs is not reflected on this table. Overall, Mississippi did not lose funding and staff-years because of this shift to user fees. If there were a Geographic Breakdown table reflecting total funding and staff-years for the Agency, no reduction in Mississippi would have appeared.

PRINTED MARKET NEWS REPORTS

Question: In your budget notes, you cite as one of your "Selected Examples of Recent Progress" a drastic decrease in demand for printed market news reports due to user fees: 75 percent decrease for livestock, grain, and poultry reports; 66 percent decrease for fruit and vegetable reports; and 55 percent decrease for dairy reports. This doesn't sound like progress to me. Have you considered elimination of subscription charges for these reports? What impact will there be on industry when these reports aren't widely disseminated?

Answer: The implementation of user fees for printed market news reports was authorized by Congress in the Agriculture and Food Act of

1981. As a result of this Act the AMS appropriation was reduced by the $950,000 formerly used to issue free printed market news reports. To continue to issue any printed reports, AMS must charge a minimal fee to fund printing and postage costs.

However, there is little danger that farmers and others in the marketing chain will be deprived of market news information. Due to the time involved in printing and mailing, these reports contain historical data rather than the up-to-the-minute information needed by buyers and sellers in making their trading decisions. AMS provides information to the industry through a number of media such as telephone answering devices, radio and television, data banks, newspaper columns, and all major wire services. To meet the needs of farmers and others for more time-sensitive data, we have, in cooperation with 47 PBS stations across the country, provided market information on television over a test channel for those equipped with a closed-captioning system. We are moving to make market information more readily available on a more timely basis through technological innovations to those interested in the agricultural marketing sector.

PUBLIC BROADCASTING SERVICE PROGRAM

Question: How much does the television captioning program with the Public Broadcasting Service cost AMS? How does this work?

Answer: The FY 1984 cost to AMS for the PBS Farm Market INFODATA Service will be $50,000.

Presently, agricultural marketing information flows from Washington, D.C. to a number of cities along a string of reserved, or dedicated, telephone lines. This information serves both regional and State offices of the Department of Agriculture and a number of public and private firms. Because the cost of distributing the information increases with distance, most organizations farther than 40 to 50 miles from the reserved telephone network cannot afford the service.

INFODATA, a part of public television's captioning system, is an ideal delivery system for farm market news. Because farm market news is now being distributed in electronic form, delivery of agricultural marketing news via INFODATA is quite simple.

Farmers and others interested in farm market news within the broadcast area of a participating public television station can simply purchase a caption decoder which costs less than $300 and begin receiving the information over their television.

At each participating station, marketing information is received from AMS via telephone lines. The station selects agricultural information of local interest, encodes the information and transmits it as part of their regular broadcast signal. This information appears on home television screens equipped with captioning decoders. The result is an agricultural market news service tailored to each local community.

A system for improving television for the hearing-impaired, captioning was developed by the Public Broadcasting Service and was first used in March of 1980. Decoders are now in use by thousands of individuals who must rely on reading the dialogue printed on the screen, rather than listening to the televised audio. Signals carrying the program captions in printed dialogue are coded into the standard public television signal. Individuals without a decoder will see only a standard picture.

In the process of developing the captioning service, additional capacity was built into the system. Presently, the captioning system can carry bilingual program captions and two channels of additional information. Viewers simply connect a decoder to their television set and select the captioning channel they desire. Program captions appear on the top or bottom of a standard picture, while the INFODATA channels consume the entire television picture.

MEAT GRADING

Question: Could you list and briefly describe the various grades of meat established by AMS?

Answer: The Federal grades of red meats consist of a quality grade and/or yield grade. Quality grades predict the meat's palatability, and are based on carcass characteristics such as maturity, amount of fat within the muscle or lean, and the lean's color, texture, and firmness. The quality grades applicable to each species of red meat are as follows:

Quality Grades	Species			
	Beef	Veal and Calf	Lamb	Pork
Prime	X	X	X	
Choice	X	X	X	
Good	X	X	X	
Standard	X	X	X	
Commercial	X			
Utility	X	X		
Cutter	X			
Canner	X			
Cull			X	
U.S. #1				X
U.S. #2				X
U.S. #3				X
U.S. #4				X
U.S. Utility				X

Yield grades indicate the amount of usable meat in a carcass after the excess fat and bone have been removed. There are five yield grades which are applicable only to beef and lamb carcass. The yield grades are based on such factors as carcass weight, external and internal fat, and the size of major muscles in relation to the carcass weight.

A brief description of each quality and yield grade for red meat is as follows:

Quality Grades

Prime--USDA Prime is applicable to beef, veal and calf, and lamb carcasses. Prime is the highest grade of these species and is from young animals. Prime meat is the most tender, juicy, and flavorful, and is generally sold in finer restaurants and at gourmet meat retailers.

Choice--USDA Choice is the second highest grade applicable to beef, veal and calf, and lamb carcasses, and is the most popular grade of all species. Choice meats have slightly less quality characteristics than Prime meats, but still produce a juicy, flavorful, and tender product. Almost three-fourths of the red meats sold in supermarkets throughout the country are of the Choice grade.

Good--USDA Good is the third highest grade applicable to beef, veal and calf, and lamb carcasses. It is somewhat more lean than the higher grades and is fairly tender, but because of the lower quality characteristics, it lacks some of the juiciness and flavor of the higher grades.

Standard--USDA Standard is the fourth highest grade of beef, veal and calf, and lamb carcasses. It has a high proportion of lean meat and very little fat. It contains fewer quality characteristics than meat from the higher grades and is less flavorful and juicy.

Commercial--USDA Commercial is the fifth highest grade and is applicable only to beef carcasses. It is produced from mature beef animals and is not naturally tender.

Utility--USDA Utility is the sixth highest grade applicable to beef, and the fifth highest grade applicable to veal and calf.

Cutter--USDA Cutter is the seventh highest grade applicable only to beef carcasses. It is produced from mature carcasses and is less tender, juicy, and flavorful than beef of the Commercial grade.

Canner--USDA Canner is the lowest grade applicable to beef carcases. It contains the lowest quality characteristics of all beef grades.

Cull--USDA Cull is the lowest grade applicable only to very mature lamb carcasses whose quality characteristics are inferior to those qualified for the Utility grade.

U.S. #1--The highest grade for pork carcasses. Carcasses of this grade are thickly muscled and have an acceptable quality of lean, a high yield of lean cuts, and a low yield of fat cuts.

U.S. #2--The second highest pork grade. Carcasses of this grade are moderately thickly muscled, have an acceptable lean quality, a slightly high yield of lean cuts, and a slightly low yield of fat cuts.

U.S. #3--The third highest grade for pork carcasses. Carcasses of this grade are slightly thinly muscled, and have an acceptable lean quality, a slightly low yield of lean cuts, and a slightly high yield of fat cuts.

U.S. #4--The fourth highest pork grade. Carcasses of this grade have an acceptable quality of lean but a lower expected yield of lean cuts than carcasses in the U.S. #3 grade.

U.S. Utility--The lowest grade for pork carcasses. Utility pork has an unacceptable quality of lean.

Yield Grades

Yield Grade #1--The highest yield grade for beef and lamb carcasses. For beef, a Yield Grade 1 carcass will yield approximately 80 percent or more in retail cuts. For lamb, a Yield Grade 1 carcass will yield up to 50 percent in retail cuts.

Yield Grade #2--The second highest yield grade applicable to beef and lamb. A Yield Grade 2 beef carcass will yield approximately 75 to 80 percent in retail cuts, and for lamb, approximately 45 to 47 percent.

Yield Grade #3--The third highest yield grade applicable to beef and lamb. For beef, a Yield Grade 3 carcass will yield 71 to 75 percent in retail cuts, and for lamb, 43 to 45 percent.

Yield Grade #4--The fourth highest yield grade for beef and lamb. A Yield Grade 4 beef carcass will yield 66 to 70 percent in retail cuts, and a Yield Grade 4 lamb carcass will yield 42 to 44 percent.

Yield Grade #5--The lowest yield grade for beef and lamb carcasses. Yield Grade 5 beef carcasses will yield 66 percent or less in retail cuts, and Yield Grade 5 lamb carcasses will yield 42 percent or less. less.

SECTION 32 PROGRAM

Question: In the Section 32 program, you indicate that $2,302 million will be transferred to the Food and Nutrition Service for Child Nutrition Programs. You also show that $80.5 million will be used to provide commodities for the School Lunch Program. Why is this $80.5 million not included in the transfer?

Answer: AMS Section 32 commodity purchases to support Child Nutrition Programs and for emergency surplus removal are estimated to be $431.4 million and $350.9 million in FY 1984 and FY 1985 respectively. The $80.5 million difference represents the net reduction in commodity purchases from FY 1984 to FY 1985. The net difference includes an increase of $5.5 million in purchases to support the School Lunch Program and a decrease of $86 million due to the exclusion of our estimated level of emergency removal purchases from the FY 1985 projection. Because of the unpredictable nature of emergency surplus removal purchases, the budget does not assume any emergency purchases. However, should emergency surplus purchases be necessary, the FY 1985 unobligated balance would be available for these purchases.

AMS Section 32 purchases represent surplus commodities which are removed from market channels and are donated to FNS which arranges for their distribution. The amounts used for the purchase of Section 32 commodities are not transferred to FNS because the missions of the two agencies are different. The mission of the FNS Child Nutrition Programs is to provide Federal assistance in cash and commodities to be used in preparing and serving nutritious meals to children. The mission of the AMS Section 32 program is to encourage the domestic consumption and exportation of agricultural commodities which we achieve by removing surplus commodities from market channels and, subsequently, donating these products to the Child Nutrition Programs of FNS. Since the planned purchases are related to surplus removal activities, this portion of the Child Nutrition Commodity funding is retained in AMS.

Question: In Fiscal Year 1983, you had an unobligated year-end balance of $185 million; in Fiscal Year 1984 you projected a $101 million unobligated year-end balance; and for Fiscal Year 1985 you project a $225 million unobligated balance at the end of the Fiscal Year. Is there not some use that you could find for this money to "encourage domestic consumption and exportation of agricultural commodities" as Section 32 provides for? Could these funds be used to pay for purchasing and/or processing surplus foods for donations to soup kitchens, for instance?

Answer: AMS is authorized to maintain an unobligated balance in this fund which carries over from year to year in order to ensure that the Department has the ability to conduct emergency surplus removal operations when such unforeseen surpluses arise.

For example, in the FY 1984 budget, the unobligated balance was initially projected to be $231 million at the end of FY 1984. During the first three quarters of FY 1984, $130 million was used to remove surplus commodities, mainly red meats. The remaining $100 million remains in reserve to react to additional needs that may arise in the last quarter. Without such a reserve and careful use, the Department would be unable to react quickly to remove unanticipated food surpluses from regular market channels which may occur throughout the fiscal year.

Any of the commodities purchased with Section 32 funds could be donated to outlets such as soup kitchens. All of these commodities would be distributed by FNS.

REPLACEMENT OF ADULTERATED BEEF

Question: Did the disposal of adulterated meat processed by Cattle King for the School Lunch program cause an increase in the amount purchased by AMS?

Answer: Yes, it did. AMS purchased an additional 23.6 million pounds of ground beef at a cost of $24.7 million to replace contaminated product purchased for schools. Funds for the replacement purchase came from the Section 32 unobligated balance.

EMERGENCY SURPLUS REMOVAL

Question: You ask for no funding for emergency surplus removal purchases because you "do not presently anticipate this need in FY 1985." You also say that an emergency surplus program will not be conducted unless unforeseen surpluses develop. How will you pay for this? Will this come from the $225 million unobligated balance?

Answer: We fund all unforeseen surplus removal efforts from our unobligated balances.

AMS ISSUANCE OF CONTRACTS FOR FNS

Question: In your statement, you say that AMS will issue contracts in behalf of FNS for specific uses in their programs. Could you elaborate on this?

Answer: FNS is appropriated funding to provide food assistance to certain groups such as needy families, Indians, and the elderly. FNS has arranged for AMS to contract for their requirements as AMS has the expertise in contracting and can at times minimize costs by fulfilling these feeding program needs in conjunction with surplus removal programs. FNS reimburses AMS for this work.

OFFICE OF TRANSPORTATION

STATEMENT OF MARTIN F. FITZPATRICK, JR., DIRECTOR

It is a pleasure to appear before this Committee today to present the budget and program needs of the Office of Transportation for fiscal year 1985. With me today are Richard G. Warren, Deputy Director of the Office of Transportation and Robert Scott, Budget Analyst, Financial Management Division, Agricultural Marketing Service.

SIGNIFICANT TRANSPORTATION NEEDS

The past year has been a significant year for the Office of Transportation because of our increased involvement in export expansion and lessening of domestic transportation regulation. Our efforts have resulted in an improved U.S. transportation system for agriculture and rural areas and in so doing, we have assisted in increasing U.S. exports to foreign markets. The success of our efforts is of utmost importance to the agricultural sector since there is no other office in government that evaluates both current and future agricultural transportation needs. As agricultural transportation needs become more complex the need for innovative solutions becomes greater. OT's mission is to provide innovative solutions to meet these everchanging problems.

MAJOR OT EFFORTS

The Office of Transportation is both a research and a service organization. One of OT's most important transportation functions is technical assistance to farmers and shippers experiencing transportation problems. Whether their problems relate to regulatory reform, export marketing, equipment surpluses, changing demand patterns, rail mergers, storage limitations or fluctuating rates, OT personnel offer timely information and assistance to resolve individual transportation problems. During 1983, OT handled approximately 7,000 technical assistance requests.

OT is also deeply involved in the development of technological innovations and economic analyses to improve the transportation and handling of agricultural products to domestic and overseas destinations.

In order to give the Committee a complete picture of the diverse and complex transportation problems that OT must address, I will detail a few of our major accomplishments during 1983.

FY 1983 ACCOMPLISHMENTS

In 1983, we continued our assessment of the effects of the lessening of transportation regulation on agriculture. OT visited 48 elevator operators and grain industry specialists in the Midwest and Northwest, and held workshops in Champaign, Illinois; Richland, Washington; Des Moines, Iowa; Great Falls, Montana; Hastings, Nebraska; Hutchinson, Kansas; and Bismarck, North Dakota.

The purpose of the workshops was two-fold: to provide technical assistance to grain shippers, and to hear their perceptions of how the new railroad regulatory reform laws were affecting them. The workshops were well received by the agricultural community.

The work of coordinating the transportation of our exports to Mexico continued during 1983 with plenary meetings at Guadalajara, San Diego, and Merida. In addition, numerous meetings were held at various border locations to resolve problems and to ensure coordination among all parties involved.

A pilot rural road and bridge study initiated by OT was completed in 1983. The study was conducted in two Pennsylvania counties under the guidance of a State-level agricultural transportation task force. Among other things, the study developed a process for incorporating rural needs and input into state transportation planning. Due to the interest generated by this study, we are expanding our efforts to Illinois, Minnesota, Wisconsin and Ohio.

OT and the Port of Long Beach cosponsored a national export conference in Long Beach, California. Representatives from over 130 exporters and carriers attended this conference. The theme of this conference was how to increase agricultural exports by removing tariff and non-tariff trade barriers.

OT tested a rail cattle car equipped with feed, water, and rest facilities in January, 1983 with a shipment of cattle from Newport, Tennessee to Amarillo, Texas. A similar test was conducted in September over the same route with some changes in the railcar plus the addition of a modified trailer riding piggyback on a railcar. The object of this test rail car is to both evaluate whether animals shipped by the test car arrive at the receiver in good condition and to reduce shipping costs.

During the 1983 trucker strike, OT worked with the Department of Transportation to ensure the continuing supply of agricultural products to the marketplace. Personnel were sent to key shipping and receiving areas where they gathered and disseminated the latest information on truck availability and the effect of the strike on major shippers, producers, and receivers. This information was used by the Department of Transportation to brief the White House on the agricultural transportation situation during the strike. Our reports were also the only accurate source of information for shippers and receivers on truck availability for hauling agricultural commodities.

Tests on a prototype cryogenic railcar and a modified refrigerated railcar were conducted, and the equipment performed adequately. Additional testing phases of this prototype are planned in FY 1984. If successful, this railcar will replace the diesel-powered mechanically- refrigerated car for long haul transport. This should reduce shipping costs substantially.

OT participated in four Interstate Commerce Commission proceedings on behalf of the Secretary. These proceedings dealt with (1) the exemption of boxcar traffic; (2) the exemption of miscellaneous field crops; (3) the furnishing of rail equipment for loading; and (4) a railroad rule which would restrict shipments of agricultural products to Mexico.

OT issued an analysis of the effect of decreased feed grain production on State surplus/deficits, and the resulting implications for transportation.

Improved shipping containers for bees were tested and a prototype machine was built to automate the packaging of bees in the new containers. When completed OT will have developed a safe and efficient package of shipping bees in modern transportation systems.

OT completed an in-depth productivity distribution study in cooperation with eight of the Nation's largest farm supply cooperatives. Quarterly data are reported to participating distribution centers. The information obtained will help cooperative distribution centers operate more efficiently.

An analysis was made of the potential impacts of coal slurry pipelines on agricultural production, rural development and agricultural transportation.

During 1983, OT concentrated on legislative issues relating to port user fees, maritime reform and cargo preference bills to enhance export expansion efforts.

FY 1984 PROJECTS

This year, in accordance with Secretary Block's agricultural transportation initiatives, OT will continue to expand initiatives on rural transportation problems, export expansion, monitoring regulatory reform and technological research.

One of our major projects for 1984 involves working with State and local officials to increase their understanding of rural transportation problems, focus attention on rural roads and bridges, and incorporate the needs of agriculture and rural communities into State highway planning and programming activities. Today--with economic deregulation and reductions in rail, bus and air service continuing to occur, and with greater expectations regarding mobility by rural residents--we believe that it is increasingly important to provide adequate rural roads and bridges to support rural economic development.

The multistate study effort on rural roads and bridges initiated in FY 1983 will continue and will include the Midwest States of Illinois, Minnesota, Wisconsin and Ohio. The study will demonstrate planning of rural road and bridge improvements at the local level, document results for use with other States, and be used to improve the delivery of available Federal and State resources for rural roads and bridges.

As part of its mission, OT is deeply commited to expanding U. S. Export capabilities worldwide. To this end, OT has been developing programs aimed at attaining and maintaining overseas markets. The challenge of finding the most efficient and economical means of transporting products is compounded by the credit problems occurring in many nations of the world. OT's current activities in the export area include the following:

--OT is presently addressing various issues affecting economies of scale in order to bring about cost reductions where it is practical to do so.

--The Office is also working more closely with agricultural exporters, State departments of agriculture, and others, by sharing of technical information through transportation workshops and OT publications such as the World Report.

--In an effort to meet the needs of shippers, OT has been maintaining close contact with various regulatory and promotional groups whose actions could affect export expansion efforts.

--Technological and economic research continues to be of paramount importance in the development of transport and materials handling equipment and techniques that will protect products in transit.

The Office of Transportation will continue to help shippers of agricultural commodities adapt to changes resulting from railroad deregulation. Because railroads are now less encumbered with Federal regulation in many areas of pricing and service, a new set of problems has begun to affect both large and small agricultural shippers.

Based on the success of the seven railroad deregulation workshops held in 1983 and the need to assemble additional data from other parts of the country, OT held two additional workshops in Raleigh, North Carolina and Atlanta, Georgia in Februrary of 1984.

After the results of all the workshops held in 1983 and 1984 have been fully analyzed, OT will publish a report to update its earlier assessment of the impacts on agriculture of railroad deregulation. The 1984 report will include recommendations where there are legitimate concerns. OT plans to continue to monitor the behavior of railroads and will make additional recommendations as appropriate.

The Office of Transportation is also involved in the Standardization of Shipping Containers project. This project is aimed at reducing several hundred sizes of shipping containers now used by the fresh fruit and vegetable industry to less than 15 standard metric containers. OT is conducting research in cooperation with the United Fresh Fruit and Vegetable Association, the large food chains in the U. S., and the Canadian Metric Board in seeking the optimum number of shipping containers for use in domestic and international trade. The expected benefits are economies in manufacturing, transportation, and both domestic and international warehousing.

Preliminary research by the University of Maine and USDA's Extension Service has shown estimated losses of potatoes amounting to $125 million annually from bruising and spoilage during harvesting, packing, transporting and distribution. As a follow-up to these preliminary research results, an industry committee contacted the Office of Transportation with a request to participate with them and the Extension Service in a joint research program and in particular, to investigate the possible causes of the losses attributable to the transportation phase. Plans are being developed for OT's participation in a comprehensive testing program of rail and truck shipments originating in Maine, Florida and Idaho. This research will involve both commercial shipments and laboratory experiments.

FY 1985 BUDGET REQUEST

In the 5 years that the Office of Transportation has been in existence, our goal has been to provide a coherent and unified approach to dealing with the many transportation issues affecting the rural economy. I feel very confident that the Department has exceeded that goal in providing farmers, agri-business, transportation firms, rural officials, exporters, domestic food processors, wholesalers and retailers effective solutions and alternatives to their problems. The Office of Transportation continues to develop and recommend agricultural transportation policy and to outline the most effective course available to the Department in dealing with transportation issues. I am proud of our accomplishments during these few years and I believe we will continue to provide a valuable service to the agriculture community.

With that goal in mind, I am requesting an appropriation of $2,540,000 for fiscal year 1985. This represents a net reduction of $9,000 from our fiscal year 1984 appropriation. Specifically, we are proposing the following changes;

- An increase of $44,000 for restoration of pay costs absorbed in 1984;
- An increase of $32,000 to cover increased operating costs resulting from inflation;
- A decrease of $5,000 associated with a phased reduction of positions in grades GS/GM 11-15; and,
- A decrease of $80,000 for a reduction of two staff years as part of an overall Department-wide staff reduction effort.

This level of funding will enable us to provide an adequate resource base to effectively and efficiently fulfill the Department's transportation responsibilities.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

CARGO PREFERENCE

Question: Please summarize the results of the projects on cargo preference and its probable impact on agricultural exports.

Answer: The Office of Transportation project identifying the cargo preference issues impacting U.S. agriculture was performed for USDA's Foreign Agricultural Service and accomplished the objectives of (1) compiling information and data on the various cargo preference measures applicable to agricultural exports, (2) providing inputs into the Department's analysis of legislation pending before Congress which would mandate further cargo reservation on agricultural exports, and (3) identifying the cargo reservation issues which merit further analysis.

The specific findings of this project included:

- Although the cargo preference requirements applicable to government impelled cargoes are intended to ensure an adequate U.S. merchant marine for national security and trade purposes, the actual levels of assistance from USDA's P.L. 480 programs varies from year to year. Accordingly, the viable operation of a U.S.-flag fleet based on the variable support from cargo preference is a difficult proposition.

- One projection of the increased costs implicit in a bill pending in Congress, the Competitive Shipping and Shipbuilding Act, estimates that the unadjusted transfer payments from the farming industry to the maritime industry would be approximately $250 million per year if this legislation is passed.

- The United Nations Conference on Trade and Development Code of Conduct for Liner Conferences which recently entered into force could possibly result in increased pressures on U.S. agricultural shippers to participate in some form of cargo reservation when trading with countries that are signatories to this agreement.

- One area meriting further attention is the continuing activities of the UNCTAD Committee on Shipping. The Committee on Shipping is working to enact a Code of Conduct for bulk shipping similar to its Code for liner shipping and to eliminate the open registry of vessels. Both initiatives, if enacted, could result in increased costs and diminished services for the international transportation of agricultural exports.

P.L. 480 SHIPMENTS

Question: Do you assist in any way with the transportation of P.L. 480 food assistance?

Answer: OT has participated in and directed transportation related studies of P.L. 480 shipments at the request of Senate members of the Great Lakes caucus. In 1982, the Secretary of Agriculture designated the Director of OT as Chairman of an Interagency Great Lakes Task Force. Other members included representatives from the Foreign Agricultural Service (FAS) and the Agricultural Stabilization and Conservation Service (ASCS). A thorough review of P.L. 480 procurement procedures and the port allocation process was conducted by the Task Force. An assessment report was distributed on March 31, 1983. Excerpts of that report follow:

PARTICIPATION OF GREAT LAKES IN PUBLIC LAW 480 EXPORTS

INTRODUCTION

The Great Lakes region, surrounded by some of the Nation's richest natural resources, heavy industry and bountiful agricultural production, has nevertheless experienced a gradual decline in commercial export activity. Much of this can be traced to the general economy such as the drop in iron ore shipments, due primarily to the continuing depressed economy in the steel industry. Through November, 1982, ore shipments were off roughly 50 percent - 37,734,567 net tons versus 74,434,900 net tons for the same period in 1981. Grain and coal, the other major bulk commodities shipped on the Lakes were slightly ahead of 1981; however, grain traffic via the Lakes continued to decline as a share of the national total grain exports.

This assessment of participation of the Great Lakes Ports in Public Law 480 (P.L. 480) exports is not intended to look into commercial exports, therefore we did not look into other reasons for the trends noted above. However, commercial exports, like other business activity are the product of intense commercial competition, technological change, physical attributes and physical constraints, plus geographic advantages or disadvantages. Limited channel depth, a short navigation season and geographical location have all contributed to some of the problems experienced at the Great Lakes in recent years.

Government shipments of food and processed products, under Title II of P.L. 480, on the other hand, have shown a rather dramatic increase during the current year as compared to previous years:

GREAT LAKES 1982 PORT ALLOCATIONS BY CALENDAR YEAR
P.L. 480 TITLE II
(1,000'S OF POUNDS)

Port	*1982 Allocation	1981 Allocation	1980 Allocation	1979 Allocation	1978 Allocation
Duluth	85,920	85,579	37,704	56,525	44,632
Superior	26,200	8,000	—	12,070	9,196
Green Bay	116,455	76,193	45,007	80,126	59,220
Milwaukee	266,846	182,040	158,832	121,709	77,953
Kenosha	23,876	28,820	18,690	22,728	20,600
Chicago	115,560	101,613	66,300	61,609	58,754

Port	*1982 Allocation	1981 Allocation	1980 Allocation	1979 Allocation	1978 Allocation
Burns Harbor	16,713	48,700	33,700	56,654	24,900
Cleveland	13,500	9,800	—	—	—
TOTAL	665,070	540,746	360,233	411,415	295,297

SOURCE: ASCS/CMO December 1982

* Largest since 1972

USDA, of course cannot equalize the geographical, physical or economic advantages or disadvantages of the region. Our role, in administering the provisions of The Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) is to procure and ship the foods requested through the Agency for International Development. Our obligation is to perform this task at the lowest cost consistent with the services required, and in conformity with applicable statutes, such as the Cargo Preference Act of 1954 (Public Law 664).

Our task in this current assessment of Great Lakes participation in Public Law 480 shipments is to (1) determine if the program - particularly the port allocation process is being conducted in a fair and equitable manner; and (2) offer any suggestions which may be worthy of consideration for the improvement of the process.

EXECUTIVE BRIEFING
GREAT LAKES P.L. 480 SHIPMENTS

BACKGROUND

Secretary of Agriculture John R. Block, on June 17, 1982, formed an Interagency Great Lakes Task Force, comprised of the Foreign Agricultural Service (FAS), the Agricultural Stabilization and Conservation Service (ASCS), and the Office of Transportation (OT). Mr. Martin F. Fitzpatrick, Director of the Office of Transportation, was designated by Secretary Block as Chairman of the Task Force.

Several meetings of the agencies were held shortly after the formation of the Task Force and a background statement was forwarded to the Senate members of the Great Lakes caucus on July 6, 1982. Subsequently, a team from the Office of Transportation visited the ASCS offices in Kansas City to review P.L. 480

procurement procedures and the port allocation process. This team then visited the ports of Chicago, Illinois; Burns Harbor, Indiana; Milwaukee, Wisconsin; Green Bay, Wisconsin; Duluth, Minnesota; and Superior, Wisconsin.

TITLE II OPERATIONS

The team found there was some disagreement among the ports visited that USDA's method of acquiring and allocating products for shipment under Title II of Public Law 480 is fair and equitable. In addition, the fairly recent development of intermodal bids from steamship companies, whereby a single transportation rate is offered from the processing plant at a U.S. interior origin to the foreign destination, has caused some concern among certain port interests.

OCEAN FREIGHT RATES AND PORT ALLOCATION

Currently, ocean carriers are permitted to offer specific quotations to apply on shipments and often are permitted to submit revised quotations in order to meet or beat competitive offers from other carriers. In today s sluggish ocean market, this has resulted in some very attractive ocean freight costs and in effect, substantial savings in the operation of the P.L. 480 program. No one disagrees with that fact. However, there were some complaints about having an "open-ended" ocean freight rate quotation process that may cause confusion among the ports and the ocean carriers.

If ASCS should require only one "final" ocean freight rate quotation, as suggested by some, it may, in the opinion of some, limit our ability to always seek the lowest landed costs. On the other hand, it does appear there is need for a formal system which is clear and fair to all, perhaps such as requiring tariffs to govern. Amendments to tariffs could be accepted by telegram. However, such amendments should be required no less than 15 days prior to the announcement of the acceptance of commodity bids, and in no event should a carrier be allowed to amend his tariff more than once during any 30-day period. While the Task Force is not in a position to recommend the above as a "perfect" solution, perhaps the idea, or something close to it, could be considered as a means of reducing the confusion and criticism.

With respect to intermodal quotations, the marketplace is where this concept will either succeed or fail. If there are savings to the Government through the use of such quotations, it is clear that the Government has an obligation to utilize them when practical in meeting total program needs. Some Great Lakes interests are opposed to intermodal quotations. The Department cannot dictate how carriers should price their services, consequently, as long as intermodal quotations are offered which meet the objectives and policies of the P.L. 480 programs, they will be considered.

It was suggested by some that U.S.-flag carriers should be required to call at all Great Lakes ports, since such carriers are being subsidized. Of course, USDA does not have the power to require a U.S.-flag carrier to call at any port, much less all the Great Lakes ports. Perhaps this point should be raised with those in the Congress who are now debating the entire cargo preference problem. In any event, the Task Force can make no further suggestions or recommendations on this point.

One of the major concerns expressed by the Great Lake port interest is the degree of uncertainty connected with Title II shipments.

It was suggested by the Great Lakes interests that there should be a permanent "base commitment" to each of the ports. Their reasoning is based upon the need for a known amount of cargo to be handled, thereby permitting a degree of stability in hiring work crews, other personnel and efficient use of facilities. They also argued that such a commitment would provide incentives to attract other commercial cargo.

The Task Force believes that a base commitment to any port or range of ports would result in an arbitrary allocation without regard to the many variable factors which must be considered on each movement. It could also pre-empt the concept of lowest landed cost. The Task Force is understanding and sympathetic to their problem but unable to endorse the recommendation at this time.

The professionals in ASCS who manage the Title II program agree that a more consistent shipment pattern would be a desireable goal. There have been numerous efforts over the years to smooth out the flow, so that we don't have 200,000 tons one month and perhaps only 40,000 tons the next month. Everyone, including those at AID would like to achieve a more consistent pattern of shipments.

Much depends upon the volunteer agencies who must determine the needs of a particular country and then present AID with the requests. The entire process, from the time the request is placed until shipment is made, can often take 6 months. There are many variables which can and often are present in acquiring the product, e.g., delivery to the port, availability of ocean vessels, etc. However, we will continue to work on this matter with the view toward smoothing out the peaks and valleys.

The remaining suggestions all dealt with procedures or raised questions regarding certain policy determinations, such as the use of the 3-year average. In some instances the suggestions reveal a lack of understanding about essentials of the Title II program, and in others, suggestions were made which would require changes in procedures which would be strongly opposed by the vendors from whom USDA must purchase.

One such example involves the ocean freight quotations which are required to be submitted one week prior to the commodity bids. It was suggested that these bids be submitted simultaneous with the commodity bids. The reason we require a one week lead time on ocean freight quotations is because of the time required to evaluate such bids and the fact that USDA must determine the successful commodity bids within 24 hours. This is necessary because most vendors are providing products made from grains, for which prices fluctuate daily on the market. A vendor could not risk submitting a bid that would not be acted upon for over a week. The only contract we make is with the vendor, thus we must continue to provide the minimum risk on commodity prices by announcing the successful bids within 24 hours. In order to do this properly, we must have the ocean freight quotations in advance of the commodity bids.

DEPENDENCY ON P.L. 480

It was found that the Great Lakes ports are perhaps too heavily dependent upon P.L. 480 cargo. All the ports, even those with low costs and high productivity must work harder at developing commercial cargo if they are to remain viable and competitive with other port ranges. No port will reach its full potential if it is heavily dependent upon government cargo, as are some in the Great Lakes. Greater effort must be made to attract non-government cargo, and developing special services, such as bagging or packaging for liquid products.

SAINT LAWRENCE SEAWAY TOLLS

Tolls on the Seaway were a topic of concern among representatives of Great Lakes ports. Increasing amounts each year to pay for operating expenses cause traffic to be diverted to less costly ports. Tolls were increased 18 percent in 1982 and a 10 percent increase is mandated for 1983 by the international agreement between the United States and Canada, signed in 1981. The amounts to be increased in 1984 and beyond will be negotiated in 1983.

One bright spot is the provision in the 1983 appropriations for the U.S. Department of Transportation, which relieves the Saint Lawrence Seaway Development Corporation from repaying an estimated $110 million indebtedness to the U.S. Treasury. This action will eliminate the need for huge toll increases on the waterway in 1986 when the Seaway would be obligated to begin paying bak $9.5 million annually, compared with the current total of $2 million.

Mr. David W. Oberlin, Administrator of the Seaway Corporation said, "In the long term, we'll be able to keep cargo that we might otherwise lose to the railroads and barge operators on the Mississippi River."

PORT HANDLING CAPABILITIES

The Task Force understands there is a wide variance in the rates of productivity among the ports visited. A major factor considered by steamship companies in deciding whether to offer services at a particular port is the rate of productivity (tons loaded per hour) as time is a critical cost factor. In summary, those ports with the lowest stevedoring costs and the highest rates of productivity should do well and continue to share in P.L. 480 cargo.

TITLE I

The Great Lakes port interests suggest a review of current policy regarding Title I cargos under Public Law 480. There were strong feelings expressed by the ports visited by the Task Force that the U.S. Government should exercise more control over Title I expenditures to insure the programs' creditability. They recommend that USDA purchase the products and book the ocean freight, as we now do under Title II.

The Foreign Agricultural Service has explored this recommendation and believes that it is not feasible. They believe that there would be no justification for the significant expansion of USDA personnel that would be required since the current program of USDA supervision of commodity and ocean freight contracting is working well. Moreover, Foreign Agricultural Service believes that USDA purchasing and booking would not change the pattern of port use under the cost minimizing guidelines of the Title I program.

The Office of Transportation without passing judgement on the recommendation or supporting a change of policy in Title I operations, does believe there should be a thorough evaluation of the matter. Specifically, an analysis of the benefits of the proposed plan should be made, its impact upon our competitive position in world markets should be identified and the comparative costs (or savings) should be determined. This study would provide policymakers and interested parties with facts upon which a determination can be made regarding any changes in the Title I program.

A Task Force team made a field trip (Sept. 13-17, 1982) to the Kansas City Field Office and visited the Great Lakes ports of Chicago, Milwaukee, Green Bay, Duluth, Superior, and Burns Harbor.

A second visit was made to the office of the Chicago Regional Port Authority on March 4, 1983. A list of individuals contacted on both visits is attached as Appendix A.

On balance, there appears to be general agreement among the ports contacted that USDA's method of acquiring and allocating products for shipment under Title II is fair and equitable. Although there have been "gliches" from time to time, these are quickly resolved and corrective action taken. One example which might be cited is the matter of interpreting ocean freight quotations. There was some confusion resulting from a lack of uniformity in the bidding process. Consequently, KCFO issued a clear set of guidelines for all ocean freight quotations. A copy is attached as Appendix B.

SEMINAR

The suggestion was made that the United States Department of Agriculture present a seminar for Great Lakes port interests on PL 480 procedures and policy concerning product procurement, port allocations and shipping. The Task Force notes that several such seminars have been conducted in recent years and there may well be a need to conduct another seminar program in the future.

TRANSPORTATION IN CHINA

Question: What were the results of your examination of transportation and receiving capabilities of port cities in China? To what degree will that information contribute to our efforts to increase exports to China?

Answer: Our inspection of several of the major ports revealed an urgent need for modernizing and enlarging certain facilities, especially grain receiving facilities. Since our trip, China has announced several major development projects directly related to the recommendations made in our report. Excerpts of that report follow:

TRANSPORTATION AND RECEIVING CAPABILITIES OF SELECTED PORT CITIES IN THE PEOPLE'S REPUBLIC OF CHINA

EXECUTIVE SUMMARY

Paul Mills and Thomas Poerstel of the USDA Office of Transportation visited the People's Republic of China (PRC) between April 23 and May 12, 1982, with the specific objective of examining the transportation and receiving capabilities of China's port cities. The team visited Luda (Dalian), Tianjin, Shanghai, Beijing and Shenyang and traveled by rail throughout the northeastern region of the country.

With a population approaching 1.2 billion people by the end of this century, China is expected to import grains and other commodities to feed its people adequately. Currently, it imports about 15 million tons of grain to supplement its annual domestic production of 330 million tons.

The pre-conditions for expansion of import, among other considerations, are the presence of adequate storage facilities and an effective dispersion system--the infrastructure of the distribution process.

China has a vast system of waterways and rails, but a relatively undeveloped highway system. Facilities at most port cities are moderately adequate for handling the present traffic, but need improvement for expanding trade. Rail transportation is the least expensive mode for cargo shipment.

The team was able to visit only grain shipment and storage facilities and in only one region of China. Subsequent exchanges with China might include visits to facilities that handle shipments of livestock, cotton, and other commodities.

China is aware of the needs for enhancing its transportation infrastructure. It is in the commercial interest of the U.S. to provide China with the necessary technical support for the improvement of their transportation and distribution system.

The USDA has been invited to make further visits to China.

INTRODUCTION

Since the signing of the Agreement on Cooperation in Science and Technology between the United States and the People's Republic of China (PRC) in 1979, more than fifty exchanges in agricultural science and technology between the two countries have been completed. These exchanges were coordinated by the Office of International Cooperation and Development, under the direction of the China Program of the Scientific and Technical Exchange Division.

As one of the U.S.-PRC exchanges, between April 23 and May 12, 1982, a two-person team from USDA's Office of Transportation visited the People's Republic of China (PRC) to examine the transportation and receiving capabilities of several key port and inland cities in Central and Northeast China. The team visited the autonomous municipalities of Beijing, Tianjin and Shanghai and two major cities in Liaoning Province. The area visited comprised over 40 million citizens and included three of China's nine navigable ports, with water depths ranging from 29 to 36 feet. Also included was a major railroad facility in the Northeast, and several grain storage and flour milling operations throughout the area. The team met with both Central and Provincial government officials.

China's purchasing and distribution programs are controlled by several Ministries: Foreign Economic Relations and Trade; Communications; and Commerce (This report will stress the specific role of the Bureau of Grain Transportation, Ministry of Commerce.)

After the Government has decided its import needs through its Bureau of International Trade, the Ministry of Communications (MOC), through its China Ocean Shipping Company (COSCO) and China Ocean Shipping Agency (Penavico), arranges vessel charters and designates the port of discharge. Port loading and unloading controls come under the Bureau of Water Transportation.

In the middle of each month the various ministries plan a coordination meeting on the overall import and transportation requirements for the succeeding month. During the first 10 days of each month, a grain allocation is made to each import area. The import area, in turn, arranges distribution within its specific region including port needs, rail or barges required within a specific province and city.

ADMINISTRATIVE REPORT: ASSESSMENT AND RECOMMENDATIONS

The team was well received. Our hosts were congenial, attentive, and accommodating. Our trip was pleasant and informative.

Assessment

The Chinese show a strong determination to join the nations of the world in commercial trade. They have a great desire to improve their port facilities, and acknowledge that their grain silo capacities need expansion. Recently, the congestion in some ports had caused the Central Government to lose U.S. $200 million in demurrage claims. Using more modern unloading techniques and better designed elevators would substantially reduce grain handling costs and hasten the process.

The railroad system, although adequate for the current demands of grain freight, will have to be improved--not just from the standpoint of carrying capacity, but also from its ability to discharge grain quickly from rail cars.

The road system of China needs vast improvement. It is inadequate for heavy demands of container or other truck traffic. The road base is not strong enough to sustain heavy traffic and the width of the roads is generally narrow. Some controls need to be developed so that commercial traffic can flow freely from city to city and not be obstructed by slow moving animals, vehicles and bicycles.

The Chinese will, in time, be able to develop their facilities in all areas that deal with foreign trade. Infusion of foreign investment will hasten the process.

Goodwill was established between the Office of Transportation and the Ministry of Commerce and, particularly, the Bureau of Grain Transportation. The Chinese shared freely their plans for port improvement in bulk handling and containerization. They were well disposed toward technical support in the transportation area.

Although each municipal authority (particularly the grain handling groups that we dealt with) indicated the existence of good communication among and between the various control sectors in Beijing, it was apparent to us that grain handlers are concerned only with their own working station. They were unaware of the movement of cotton and other products in other parts of the port.

The administrative division of responsibilities in China made it difficult for us to have a composite picture of the total transportation program, or to comprehend the interrelationship of the various transportation and distribution sectors. Although we visited northern ports and saw the grain discharge from medium sized vessels into rail cars (the type of transportation predominant in those northern cities), we were unable to visit southern port cities where barge transport is more common. Wheat is the key grain product in the north; rice is a key southern grain. The handling of these commodities requires different techniques and procedures.

The scientific and technical exchange agreement between OICD and the Chinese State Agricultural Commission is well planned and executed, but the tight control within the various layers of PRC Government and the affiliation of our host (the Ministry of Commerce), made it impossible for the team to visit anywhere except the grain handling facilities and those areas in the port where grain is processed. Subsequent visits might focus on the handling of cotton and livestock, especially in southern port cities.

Recommendations

The following are our recommendations:

1) Grain storage facilities should be built closer to rail siding.

2) Pits for receiving grain should be located directly under the hopper discharge equipment.

3) A road system should be developed so that containers can be economically moved from the port area to the consuming area without the delaying process of stripping the containers at the port and its consequent risk of damage to the cargo.

4) The long conveyor operation for the discharging of grain from rail cars into silos should be streamlined or eliminated.

5) The U.S. should invite Chinese officials to this country to examine grain handling systems, railroads, trucks and barge operations.

6) Joint conferences should be arranged and periodic exchanges of ideas on technological developments in handling and transportation of agricultural products should be implemented for mutual benefits.

The development of an infrastructure for transportation and distribution of agricultural products is critical to the success of U.S. foreign agricultural trade. If this nation is to continue to sell large volumes of agricultural products abroad, the infrastructure of the buying nations at the receiving point must be adequate for receiving, storing, and distributing the product.

Question: Why did your office conduct this study rather than the Trade Representative's office or some other agency which deals with international trade related issues for the entire spectrum of exportable products? How much did this study cost?

Answer: Our office was issued an invitation by the People's Republic of China to review their grain handling, processing, and storage facilities at certain port cities and at key interior distribution centers. The invitation was very precise and the entire survey was controlled by the PRC, not USDA or some other agency. The Foreign Agricultural Service paid for the travel to and from China. All expenses inside China during the three weeks spent there were paid by the Chinese. Total cost to USDA, including the issuance of the report, for the two people who conducted this study was approximately $5,000.

1983 TRUCK STRIKE

Question: Why did OT monitor the 1983 truck strike and keep other Federal agencies informed rather than having the Department of Commerce or the Department of Transportation monitor the situation?

Answer: OT's efforts were an important component of the measured response which resulted in the cessation of violence and the ending of the 1983 truck strike with comparatively minor inconvenience to the public at large. This agency coordinated the gathering of information and the economic analysis of data relative to the effect of the shutdown on the Nation's food supply and prices to consumers. Within 24 hours after the strike took effect, OT took immediate action to monitor the supply of perishables at several major markets in the East. Later, we positioned our people in shipping areas to provide timely information on available truck supply.

The results of this undertaking provided DOT and other government agencies a rational and informative body of intelligence on a particular trucking industry activity that contributed to the important decisions made during the shutdown.

INCREASE FOR OPERATING COST

Question: What is your justification for requesting an operating cost increase?

Answer: The operating cost increase represents an adjustment for inflation. These costs are very difficult to absorb by a small agency such as ourselves. Consequently, we requested this increase to prevent the erosion of our service to the public by cost increases over which we had no control.

OT AND DOT

Question: What kind of relationship does your office have with the Department of Transportation? Do you work together on projects?

Answer: Since the formation of OT, our programs have been directed to helping the agricultural community resolve transportation concerns. In the process of providing technical assistance and conducting studies on productivity, economics, and policy, our Office and the DOT have cooperated productively on numerous occasions.

Information and data have been exchanged on legislation, regulations, emergency preparedness plans, equipment standards, transportation data needs, and rural transportation development. Weekly communication occurs between professional staff members and the relationships are very good. In addition to the 1983 truck strike involvement, OT and the Federal Highway Administration personnel worked together to provide assistance in rural transportation planning activities. Rural Technical Assistance (RTAP) funds have been allocated to the preparation of educational materials on rural transportation planning with emphasis on identifying high priority roads and bridges to serve agriculture. This involvement was subsequent to an OT-initiated pilot demonstration project on rural roads and bridges conducted in Pennsylvania.

TECHNICAL ASSISTANCE

Question: Your statement and your budget notes show that your Office handled about 7,000 technical assistance requests -- substantially more than the previous year. In light of that, how can you reduce your staff by two staff-years and continue to meet the demand for your services?

Answer: First, let me state that we will eliminate a GM-14 Chief Economist position and a GS-6 secretary position, both from the Office of the Director. Much of this work will be absorbed by the remaining staff. Also, we have implemented a Project Management System, whereby we can monitor the progress and control the project more effectively in terms of both human and fiscal resources being assigned to a particular request or project.

NON-FEDERAL FUNDS

Question: What projects of yours are assisted with non-Federal funds?

Answer: The Office of Transportation currently has no projects underway that are funded from non-Federal funds.

OT AND ERS

Question: What relationship does OT have with the Economic Research Service?

Answer: OT is primarily a service organization providing technical assistance to the agricultural community to help them to solve transportation problems. Issues are handled by multidisciplinary teams which may include economists, traffic managers, transportation planners, engineers and marketing specialists. Often studies are conducted on the impact of new regulations, legislation and societal trends on the movement of people and agricultural products.

The Economic Research Service (ERS) carries out research on the production and marketing of major agricultural commodities, foreign agriculture and trade, natural resources, rural economic and sociological problems and performance by the U.S. agricultural industry. This organization also conducts transportation research. Generally speaking, ERS gravitates towards issues with a long term impact and OT deals with issues with a short term impact. By maintaining a close working relationship, each agency is able to share its unique expertise with the other.

Over the years, timely information and data have been exchanged between OT and ERS which has resulted in a very good collaborative relationship being developed to the mutual benefit of both agencies.

FY 1985 OT PROJECTS

Question: What new projects do you plan to initiate in FY 1985 and how much will each cost?

Answer: Projects in rural transportation development, monitoring the effects of the Staggers Rail Act, transportation productivity improvement initiatives, and issues related to international transportation represent the major planned initiatives of this Office for 1985. Specific new initiatives and estimated cost of the associated projects are:

Project	Estimated Cost
• Implementation of an information and education program for grain shippers on rail costing.	$ 22,500
• Develop a method for routinely evaluating the effects of rail contracts on wheat producers and shippers.	45,000
• Evaluating the impact of the Staggers Rail Act on the future of the local elevator system in the U.S.	17,500
• Implementation of training programs on transportation resource management for local public officials.	35,000
• Development and testing a technology transfer plan for the rehabilitation of existing local bridges by the use of timber products.	10,000
• Develop an information dissemination program for ocean shippers of agricultural commodities on service contracts as provided by the Shipping Act of 1984.	25,000
• Assess the shock and damage problems associated with intermodal shipments of perishable foodstuffs.	20,000
Total Costs	$ 175,000

These projects are representative of our contemplated FY 85 initiatives. Additional projects are being developed.

FEDERAL GRAIN INSPECTION SERVICE

STATEMENT OF KENNETH A. GILLES, ADMINISTRATOR

I appreciate the opportunity to appear before this Committee today. The topics of this presentation include a description of the overall Federal Grain Inspection Service--FGIS--program, and of our continued efforts to provide a cost effective approach to the inspection and weighing of grain.

We are requesting $43.8 million for Fiscal Year 1985. User fees will account for $36.9 million. Our appropriation request will total $6.9 million, of which $3.2 million will fund standardization activities and $3.7 million will fund our compliance program. Included in our compliance request is the $1.3 million FGIS received in Fiscal Year 1984 to monitor the activities of official agencies. These designated state and private agencies issue a Federal certificate for grain inspected and weighed in the domestic markets. FGIS is responsible for overseeing these agencies and now receives appropriated funds for this task. Both the direct supervision of Federal employees and the original inspection and weighing activity continue to be funded by user fees.

The FGIS' mission is to provide for the establishment of official U.S. standards for grain, to provide for the uniform application of standards by official inspection personnel, and to regulate the weighing and certification of the weight of grain shipped in interstate or foreign commerce. The inspection and weighing activities are funded by a user fee cost recovery program. These activities, which are mandatory at export ports and permissive in the domestic area, comprise the national "Official" Inspection System.

This system encompasses approximately 3600 employees, 700 of whom are FGIS field personnel who provide the direct on line mandatory inspection and weighing of grain at 54 export elevators. Eight delegated States employing approximately 600 employees provide mandatory official services at an additional 29 export elevators under Federal oversight. Permissive inspection and weighing in the domestic market are performed by 2300 licensed inspectors employed by 83 designated State and private agencies, also under Federal oversight.

During the past fiscal year, FGIS has continued to tailor its program to meet the fluctuating demands for inspection and weighing services. FGIS derives approximately 85 percent of its revenues from these services which depend on the volume of grain movement. The volume of grain exports is determined by a variety of factors within the international agricultural community and is outside the control of FGIS. In the use and management of personnel, finances, equipment and other resources, the Agency continues to base its policy decisions on cost efficiency factors.

SUPERVISION PROGRAM

FGIS is charged with the responsibility for overseeing the performance of all personnel operating within the national official inspection program. The goal of this program is to ensure nationwide uniformity in the application of grain standards and inspection and weighing procedures. This entails the direct supervision of Federal employees, and monitoring the activities of delegated and designated official agencies.

The monitoring function is primarily conducted by FGIS field employees. Field office personnel monitor official agencies by analyzing selected samples of official Agency inspections and by performing on-site visits to each of the 83 designated State and private agencies. While this monitoring function for compliance is funded by appropriations, the supervision of all Federal employees, delegated and designated State agencies and designated private agencies is funded by user fees.

FGIS has been working with the States of California and Washington to modify the current delegation of authority agreement. Under the proposed modification, these States would assume more responsibility for their own programs. These changes will increase efficiency, reduce FGIS operating costs and result in a reduction of supervision fees paid by the States.

SAFETY

The U.S. grain industry during Calendar Year 1983 had one of its best safety records in over 20 years. During Calendar Year 1983, there were 13 explosions in grain handling facilities resulting in 14 personal injuries and no deaths, making 1983 the first year since 1961 during which there were no reported deaths from grain elevator explosions. The grain industry deserves much of the credit for the improved safety record. To combat explosions the industry is adopting new technology and new elevator design and many companies have retrofitted and modified existing facilities.

Increased awareness of explosion risk has led to an interaction among government, industry, union and trade associations and has resulted in improved dust control procedures and explosion prevention methods. There have also been a number of research and education projects aimed at reducing elevator fires and explosions.

Secretary Block in 1982 established a grain storage, handling and processing safety program and a safety subcommittee to monitor activities and to promote safe grain movement. This subcommittee acts as a clearinghouse for elevator safety information. During 1984 the subcommittee will utilize the National Agricultural Library in Beltsville as an international repository for research on the subject of elevator safety. Finally, the Cooperative Extension Service is working with industry experts toward the development of educational programs aimed at increased grain handling safety.

FISCAL YEAR 1985 REQUEST

Total funding for FGIS is estimated to be $43.8 million in Fiscal Year 1985. This consists of $6.9 million in appropriated funds and $36.9 million to be collected from user fees. We are requesting an additional $75,000 in appropriated funds in Fiscal Year 1985 for increased pay costs which were absorbed during Fiscal Year 1984.

The FGIS revolving fund reserve is dependent on revenues received from the performance of official services on grain shipped to domestic and foreign markets, and on revenues received from supervision of official agencies. The Agency, in recent years, has applied stringent cost reduction efforts in its user fee program to bring costs in line with revenues and will continue to emphasize cost efficiency in the future. There is, however, a limit to the extent of the reductions before the inspection and weighing programs are adversely affected. It is paramount that the Agency maintain a cadre of permanent well trained personnel. The Agency experiences fiscal difficulties when faced with declining revenues as a reflection of reduced and fluctuating grain movement beyond our control. For example, we have reduced revolving fund expenses from $39.8 million in Fiscal Year 1982 to our present estimate of $36.9 million in Fiscal Year 1985. At the same time world economic conditions have reduced grain exports. For example, five hundred and fifty-four million fewer bushels of grain were exported in Fiscal Year 1983 than the preceding fiscal year. Lower levels of exports translate into reduced Agency revenues which in turn may result in negative margins which deplete the Agency's reserve.

During Fiscal Year 1983 the Agency's operating fund reserves had reached a low level. In response, FGIS requested and received a $6 million budget supplemental to recapitalize the Agency's revolving fund. These dollars will enable Agency officials to base decisions on long range program considerations rather than short term profit and loss factors. We consider this budget supplemental a line of credit, to be used only if needed. We will endeavor to repay these funds to the Treasury. This Agency continues to pursue methods to stabilize our reserve funds. We believe the proposed change in the supervision program will help reduce operating costs. Finally, we must consider fee adjustments in Fiscal Year 1984 for certain fee supported programs. The need for fee adjustments, both increases and decreases, becomes obvious as one analyzes our operating results for Fiscal Year 1983. Certain programs produced positive margins while others produced negative margins. Our operating results for Fiscal Year 1983 were reported in our "Annual Report to Congress" December 1, 1983. Our objective remains to recover costs while providing a cost-effective and efficient service.

ADVISORY COMMITTEE

We have continued to work closely with our advisory committee the past year and it has offered the Agency an important source of industry advice on a number of issues. Among the topics discussed have been maximum limits under which FGIS would be responsible for maintaining moisture charts; wheat, corn, sorghum, and sunflower standards; definitions for "supervision," "standardization," and "compliance" activities; and the basic reference method for determining corn moisture.

PROGRAM CONCERNS

The release of a new wheat variety - Arkan - a cross between two classes of wheat, Hard Red Winter and Soft Red Winter, has created classification problems. Based upon its milling and baking characteristics, Arkan may meet milling standards for Hard Red Winter wheat, however, when graded under the official U.S. standards it resembles Soft Red Winter wheat. U.S. grain standards describe the physical and biological properties of the grain at the time of inspection. Visual kernel characteristics are used for classing wheat because of the limited time permitted during the grading process. This procedure has been used successfully in both domestic and foreign commerce and is understood by most shippers and buyers. No practical tests are known at this time that can be substituted in the grading system for visual identification of wheat classes. To address these concerns we have requested the Agricultural Research Service to include wheat classing on their research agenda.

We will be working with plant breeders and other scientists to develop new technology and instrumentation necessary to replace or supplement visual procedures. We have also proposed a new class of wheat--Red wheat. This was contained in the proposed rule published in the January 13, 1984, Federal Register. The need for any subsequent changes in wheat standards will go through the rulemaking process with comments by the public.

FGIS is also concerned with recent complaints by corn buyers that the official USDA air oven method for determining moisture content under estimates the actual amount of moisture present. In response to these complaints we are now investigating other internationally recognized methods to determine if a more accurate method is available.

Another issue concerns grain additives. The Food and Drug Administration has approved the addition of white mineral oil--U.S.P.--as a dust suppressant on commodity grain. If the odor or quality of the grain is adversely affected, the grain will be graded accordingly.

Finally, elements of FGIS must vacate their present location at Richards-Gebaur Air Force Base located near Kansas City, Missouri, by the end of Fiscal Year 1985. FGIS is working with the Agricultural Marketing Service and the General Services Administration to find a suitable location for our present Kansas City operations within the Kansas City metropolitan area.

LEGISLATIVE CONCERNS

The charter of the Advisory Committee expired on September 30, 1983. However, the Committee was extended by the Secretary through

Fiscal Year 1984. Under the sunset provisions of the Omnibus Budget Reconciliation Act of 1981, certain FGIS programs are due to terminate September 30, 1984. The Advisory Committee has informally indicated that it would support the reauthorization of the FGIS program.

The Agency continues to operate under a limitation which sets Agency administrative costs as a percentage of total costs. Unfortunately, many of our administrative expenses are fixed while the balance of our costs vary depending on workload. As workload decreases, such as with the decline in exports, fixed administrative costs become a greater percentage of total costs. In our reauthorization hearings before the Agricultural Committee, we are asking that this constraint be removed from the statute. We will hold down administrative expenses to the greatest extent possible.

Mr. Chairman, this concludes my testimony. I would be glad to answer any questions you or other members of the Committee may have.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

CLASSIFICATION BY OBJECTS

Question: Your overall budget request remains virtually the same as the FY 1984 appropriated level, with adjustments only for absorption of pay cost. However, your "Classifications by Objects" table in your budget notes indicates a shift in spending among various objects. For instance, "Benefits for former personnel" is slated for a $255,000 decrease, while "transportation of things," "other services," and "supplies and materials" all have proposed increases. Please justify these changes; including a breakdown of "other services."

Answer: FGIS does not anticipate substantial RIF's and furloughs associated with major agency reorganizations and consolidations, thus causing the decrease in benefits paid to former personnel. The $25,000 increase in the "Transportation of Things" object class is attributed to increased expenses for the movement of household goods. Also, establishment of a National Technical Center in Kansas City, Missouri, and the new Federal-State program with the States of California and Washington will require the transfer of a number of employees. The $42,000 increase in "Supplies and Materials" will be directed to underwrite the upgrading of FGIS automated data processing capabilities.

"Other Services" expenses include charges for the Department of Agriculture overhead support, Agriculture Marketing Service management support, the National Finance Center, and FGIS payments to contract samplers. The sub-object classification table detailing these "Other Services" expenses follows:

OTHER SERVICES
(Dollars in Thousands)

	FY 1983 Actual	FY 1984 Estimate	FY 1985 Estimate
2500 Other Services	$15	$62	$61
2510 Contractual Services	528	1,737	1,720
2512 NFC Services	450	1,307	1,293
2513 WCF Equipment Use	2	5	5
2514 Federal Protection Service	4	31	30
2516 Information Desk	1	6	6
2518 Arts/Graphics, Video Tape Prog.	3	13	13
2520 Personnel Related Expend.	13	516	511
2521 Temporary Storage of Household	1	---	---
2523 Training Tuition Fee	14	80	79
2528 Health Units	2	8	8
2530 Repair, Alter. & Maint.	2	10	10
2532 Repair, Equipment	---	3	3
2535 Repair, Office	---	3	3
2540 Contractual Services, Other	328	144	142
2545 Art Work	1	---	---
2546 Contract Samplers	277	711	704
2550 Agreements	---	3	3
2551 Cooperative State Agencies	26	36	36
2560 ADP Data Processing Service	11	169	168
2570 Miscellaneous Services	---	2	2

OTHER SERVICES - CONTINUED

	FY 1983 Actual	FY 1984 Estimate	FY 1985 Estimate
2574 GSA Motor Pool	1	1	1
2575 Other non-Travel Expenses	3	8	8
Total Other Services	1,682 1/	4,855	4,806

1/ An adjustment of $2,693,075 for prior year obligations has reduced this total.

USER FEES

Question: Please summarize for the Committee the Advisory Committee's conclusions on the impact of user fees.

Answer: The Advisory Committee generally endorses the concept of user fees. The Committee recognizes FGIS as a far leaner and more efficient agency with a much clearer grasp of its scope and mission. The impact of broadened user fees has, however, reduced requests for official inspection and weighing services; increased unofficial inspection activities, and provided a greater management challenge to FGIS, particularly with decreased export activity.

INSPECTIONS

Question: Please also provide the numbers of inspections, voluntary and involuntary, which have taken place since FY 1980.

Answer: Between the period of October 1980 through February 1984, FGIS conducted 402,574 involuntary inspections and 13,663,860 voluntary inspections.

PROGRAM FUNDING

Question: Are there any programs you administer which could possibly be funded by user fees but currently are funded by appropriations?

Answer: We believe the current balance between the appropriated funding of standardization, compliance, international monitoring activities, and the FGIS Advisory Committee, and the user fee financing of original services, supervision and administrative expenses is appropriate.

In Fiscal Year 1984, FGIS programs are approximately 84 percent user fee funded, an increase from a 58 percent level in Fiscal Year 1981. During this two year period, we have reduced our total operating costs by $18.4 million and Federal outlays from $24 million to $6.9 million. This has been accomplished by operating in a more cost efficient manner while maintaining the integrity of the service.

ADVISORY COMMITTEE

Question: What are the costs estimated to be for the Advisory Committee for FY 1984?

Answer: The FY 1984 Advisory Committee budget is $54,000. Of this amount, $18,000 will be directed towards personnel and related costs while $36,000 will be directed towards travel expenses of the 12 Committee members.

FOREIGN TRAVEL

Question: Are the trips to foreign countries to discuss various issues productive?

Answer: Yes. What is accomplished depends upon the issue being discussed. We strive to impart greater understanding of the U.S. Grain Standards and our inspection and weighing procedures to facilitate the trading of grain.

Question: What kinds of discussions go on at these meetings?

Answer: Past discussions have included explanations of our inspection and weighing systems, proposals for collaborative studies, and responses to complaints about the quality of U.S. grain shipments.

Question: What results come from these meetings?

Answer: One of the primary results of these meetings is the foreign buyer's increased knowledge and confidence in the U.S. inspection and weighing systems. Wherever we travel, representatives from other grain exporting countries have also visited. In the face of this competition, we believe it is vital that the foreign buyer hear from and, in turn, be heard by FGIS. A comparison of the 16 quality and weighing complaints received in FY 1983 to the 114 million metric tons of grain inspected gives an indication of the effectiveness of this communication with the foreign buyers.

Another important accomplishment is responding to discrepancies. Because of the analytical nature of our work, technical differences can develop between FGIS and the foreign inspectors. Foreign meetings to discuss collaborative studies and comparisons of each party's standards provide the basis for answering foreign inquiries.

MANAGEMENT REVIEWS

Question: Your budget notes indicate that semi-annual on-site management reviews of each agency performing official services are being performed. What is the current status of that program?

Answer: FGIS has issued instructions establishing procedures for the semi-annual management reviews of agencies. Field offices have been conducting these reviews since December 1982. Most field offices have completed at least two reviews of each agency.

Question: In the reviews already completed, have you found that most agencies are functioning efficiently and effectively?

Answer: Most agencies are operating effectively. Some minor problems have been found during the reviews. These have usually been corrected in the follow-up process. The review program, in conjunction with the triennial designation renewal requirements of the U.S. Grain Standards Act, are effective compliance tools.

FIELD OFFICES

Question: Please explain the role of FGIS field offices.

Answer: FGIS field offices play several roles in the national inspection system. At export port locations, where States have not been delegated authority to provide official service, FGIS field offices provide mandatory inspection and weighing services. At locations where States have been delegated authority to provide export inspection and weighing service and State and private agencies have been designated authority to provide inspection and weighing services at other than export locations, the FGIS field offices oversee the performance of the State and private agencies and provide guidance and assistance to the agencies as they carry out their responsibilities. All field offices provide appeal inspection service and review of weighing service upon request. In addition, under the Agricultural Marketing Act, some field offices provide rice and/or commodity inspection service directly or through the use of a cooperator, such as a State inspection agency.

Question: What relationship do these have to official agencies (OA's)?

Answer: FGIS field offices conduct management and technical reviews of agencies to determine conformity with all requirements and procedures established by statute, regulations, instructions, or directives. The FGIS field office manager supervises the managers of agencies by providing oversight, guidance, and assistance as they carry out their responsibilities.

Question: Are employees of OA's on the payroll of FGIS?

Answer: No. FGIS makes no payments to official agency employees.

SUPPLEMENTAL APPROPRIATION

Question: In FY 1983, you transferred the $1.3 million from the revolving fund to the salaries and expenses account. In FY 1984, you faced a low cash reserve level in the revolving fund, and asked for a supplemental appropriation to recapitalize the fund.

Why did you not ask for a supplemental for salaries and expenses in FY 1983?

Answer: We requested and Congress granted an increase of $1.3 million in appropriated funds for FY 1984 to fund compliance activities. FGIS has two separate sources of funds, each associated with a different type of agency activity. FGIS receives an appropriation for its salaries and expenses account. This account pays for activities like compliance, standardization, and international monitoring which are related to the national inspection system as a whole. These activities, therefore, are financed by the taxpayers who indirectly benefit from an enhanced national grain inspection system.

FGIS' second source of funds is a revolving fund which finances the costs of providing services to the grain industry. Applicants for our services are assessed a user fee. An example of this type of activity would be export grain inspection. Federal user fees generate revenue for the revolving fund. One of our goals is to assure, through user fees, that those individuals who directly benefit from our services bear the costs. We requested a supplemental to recapitalize the revolving fund, because our retained earnings were being depleted to low levels by operating losses in Fiscal Years 1980 through 1983, even though costs were substantially reduced in recent years. We have turned our financial situation around in the first half of FY 1984 to a modest positive margin. We are also proposing user fee adjustments this year, striving to recover our costs equitably for each program. We have pledged to repay the supplemental appropriation to Treasury over the next three years.

Question: Is this type of transfer a common occurrence?

Answer: This type of transfer is not a common occurrence. However, during a review of agency programs in FY 1983, it was determined that several agency activities, which had been considered user fee funded inspection activities, were in reality compliance activities and more appropriately funded by tax dollars through the salaries and expenses account.

Question: How soon do you expect the $6 million recapitalization money to be paid back to the Treasury?

Answer: We will endeavor to repay the supplemental over a three year period. Agency revolving fund reserves will provide the source of the remittance.

Question: How much of that $6 million has been used to date?

Answer: FGIS to date has not used any of these funds.

KANSAS CITY RELOCATION

Question: Why must you vacate Richards-Gebaur Air Force Base in Kansas City by the end of FY 1985?

Answer: In January 1983, the General Services Administration, GSA, notified FGIS of their plans to dispose of the facility occupied by FGIS at Richards-Gebaur Air Force Base. FGIS was given the option of either purchasing or vacating the facility. FGIS has chosen to vacate and acquire a facility that meets our specifications. The Department of Navy wishes to rent the building we presently occupy on October 1, 1985. The Agency has continued to work with GSA to find a suitable location within the Kansas City area. On February 29, 1984, FGIS forwarded its space specifications to GSA. It is anticipated that GSA will require 18 months to acquire a facility that meets our specifications. We will closely monitor GSA actions to facilitate our move as quickly as possible.

GRAIN ELEVATOR EXPLOSIONS

Question: Have there been any grain elevator explosions this Fiscal Year? Please give details.

Answer: There have been 8 explosions during Fiscal Year 1984. The following table details the locations, injuries involved, and probable cause of each explosion.

Federal Grain Inspection Service
Reported Dust Explosion Incidents
In Grain Handling Facilities (FY 1984)

No.	Facility & Location	Date	Injuries	Deaths	Probable Cause
1	Bob Poity, Inc. Yuma, CO	11/02/83	0	0	Suspect bearing failure in boot
2	Prairie Grain East Bernard, Texas	11/28/83	0	0	Undetermined
3	Rivard's Quality Seed Argyle, MN	11/30/83	2	0	Originated in hammer mill
4	Darwin Elevator Darwin, MN	12/28/83	2	0	Undetermined
5	Lubbock Feedlot Mill Lubbock, TX	01/20/84	1	0	Undetermined
6	Epstein-Harms Feed Yards Fort Morgan, CO	02/04/84	1	0	Undetermined
7	Monroe Grain Co. Monroe, NB	03/15/84	2	0	Undetermined
8	Farmers Elevator Castlewood, SD	03/25/84	1	0	Electrical spark
	Total		9 1/	0	

1/ No Federal employees involved.

NATIONAL TECHNICAL CENTER

Question: What progress is being made in the development of a National Technical Center?

Answer: Facility drawings and specifications for the FGIS Technical Center were sent along with a request for establishing a permanent laboratory facility in the greater Kansas City area to the General Services Administration (GSA) on February 29, 1984. It is anticipated that GSA will require 18 months to acquire a facility that meets our specifications. We intend to monitor GSA actions to avoid delays.

AGRICULTURAL COOPERATIVE SERVICE

STATEMENT OF RANDALL E. TORGERSON, ADMINISTRATOR

I appreciate the opportunity of appearing before you to present the funding request of the Agricultural Cooperative Service. First, I want to introduce my associates who are with me today -- Dr. Jack Armstrong, Deputy Administrator, Agricultural Cooperative Service; and Robert Scott, Budget Analyst, Financial Management Division, Agricultural Marketing Service.

The Agricultural Cooperative Service (ACS) is the Department's focal point in providing research, analysis, technical assistance and education to farmer-owned cooperatives throughout the Nation. ACS operates as an independent agency carrying out major functions assigned to it by the Secretary. Missions of the Agency closely follow the language and spirit spelled out by Congress in the Cooperative Marketing Act of 1926.

Summary of Farm Cooperative Sector

A total of 6,125 marketing, farm supply and related service cooperatives were operating in 1982 with combined sales of $69.5 billion. These farmer-owned organizations experienced significant growth in the decade of the 1970's. Some of the larger regional cooperatives entered the decade of the 1980's highly leveraged and paid the price when double digit inflation and interest rates prevailed in 1980-82. Locally owned cooperatives were more conservatively financed than their larger regional wholesale and marketing organizations.

Due to a combination of factors such as relatively high debt/equity ratios, the recession, PIK, and the drought, a number of cooperatives experienced a sharp drop in net margins in 1981-83. Strong measures have been taken to improve operating efficiency, including the paring of unprofitable operations and in some cases the selling of assets. As a result, these organizations have streamlined their operations and are poised for improved performance in the recovery period. In a number of cases, cooperatives at the local and regional level will continue to be involved in merger activity to improve their competitive position relative to others in the industry.

Operating performance among cooperatives differed depending upon the level in the production and marketing chain in which they were operating. Farm supply cooperatives experienced a difficult operating environment in the early 1980's due to the impacts of reduced plantings, drought, and a declining export market. That situation continued in 1983. Organizations focused primarily on marketing commodities also experienced difficult times for many of the same reasons. In particular, grain elevators experienced slow turnover due to slack export demand and reduced volumes of grain. The bright spot in the cooperative sector continues to be in the value-added manufacturing and distribution of farm grown products, often under cooperatives' own brand names. This penetration into advanced stages of marketing provides farmers with a yardstick of competition in their markets, an opportunity to obtain more profit from performing market activities, and market presence that is so necessary for staying power in this dynamic food industry.

Agency Missions

The Agricultural Cooperative Service provides cooperative research and policy analysis and is the primary supplier of technical assistance to farmer cooperatives. We help existing cooperatives improve and assist emerging ones to get a good start. We concentrate on providing immediate response and leadership to bring about more effective cooperative operations in support of family farms.

The Agency's program has five basic missions: (1) technical assistance, (2) cooperative development, (3) research, (4) collection of cooperative statistics, and (5) cooperative education and information.

Overview of Research and Technical Assistance Activities

During the past year the Agency has been involved in eighty-one technical assistance projects involving 108 co-ops and producer groups, of which 57 projects were for emerging or developing co-ops. Crop commodities include grain, soybeans, cotton and cottonseed, guava, strawberries, blueberries, peanuts, vegetables, coffee, macadamia nuts, and forest products. Animal commodities and products included pork, dairy, fish, and poultry. Other products were petroleum, handicrafts, feed, seed, and other farm supplies. Examples are the study of a merger of nine local farm supply co-ops in Wisconsin, starting a peanut-shelling co-op in Virginia, and help with forming a State federation of six South Carolina dairy co-ops.

Major activities and research projects completed or being initiated include an export conference focusing on Export Trading Companies, cooperative exporter booklets, and studies focusing on cooperatives' export opportunities; farmer memberships in and use of marketing and farm supply cooperatives; financial profile of the largest cooperatives; development of cooperative financial performance measures; marketing of wool, grain and live animals; and use of electronic communication through networking between cooperatives and their members.

Management Adjustments

During the past year, the Agricultural Cooperative Service made several organizational and management changes designed to increase the effectiveness and efficiency of the Agency. These included, after careful consideration, closing Cooperative Development field offices in Maine, Arkansas, and California; relocating our North Carolina field office; and opening a new office in Hilo, Hawaii. This reduced our total number of field offices from 5 to 3. We also closed our National Cooperative Development Training Center in Athens, Georgia. Training will now be conducted on a regional, as needed, basis at considerable reduction in cost.

In response to the President's Reform '88 program, we are in the process of automating many of our inhouse functions. When accomplished this should help offset the Agency's reduction in personnel. To conduct our Agency's activities during FY 1985, we will have a ceiling of 66 staff years, a decrease of 4 from FY 1984.

Our budget request for FY 1985 is $3.6 million, which is $1.1 million less than the Agency's FY 1984 level. Our FY 1985 budget proposes the following changes:

-A reduction of $1.2 million for cooperative research and technical assistance efforts. This reduction will be achieved by eliminating all outside research with land-grant colleges and universities and reducing Agency staff research. As a result, program activities will be more sharply focused on critical research issues facing cooperatives. In addition, crop and cooperative management and operations programs, as well as cooperative development and technical assistance to new and emerging cooperatives, will be reduced.

-A decrease of $11 thousand associated with a planned reduction of positions in grades GS/GM 11-15; and,

-An increase of $108 thousand for pay costs.

Mr. Chairman, I thank you for the opportunity to present this statement. We will be pleased to respond to questions.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

INTERNATIONAL MARKETING

Question: Last year, the Committee directed that ACS should give priority to efforts to assist and encourage agricultural cooperatives in international marketing. What efforts have been made to carry out this directive?

Answer: In the last year, several efforts were made to assist and encourage cooperatives in international marketing. A series of four booklets describing cooperative exporters of grains and oilseeds; dry beans and pulses; fruits, vegetables and nuts; and animal products are being prepared for distribution to foreign buyers. These booklets describe the cooperative, the products and services they export, and how to contact them.

In cooperation with other cooperative organizations, ACS is developing a trade information service for exporting cooperatives. This service will include export and foreign country market information that will enhance export and foreign market development efforts by cooperatives.

ACS has conducted several technical assistance studies for cooperatives wishing to develop foreign markets for specific products.

Finally, ACS is cooperating with several universities in conducting research to develop data on foreign market operations. One study will help fruit, vegetable and nut cooperatives expand high-value exports to selected Pacific rim countries. Another will estimate costs of establishing and maintaining foreign offices, and a third will estimate the effectiveness of promotional expenditures in expanding export sales of high value-added products.

HAWAIIAN FIELD OFFICE

Question: What is the status of the ACS office in Hawaii?

Answer: The Hawaii field office opened in September 1983. It is located in the Federal Building in Hilo. This office is staffed with one Agricultural Marketing Specialist and half-time secretary.

The office staff has been very busy providing technical assistance to several cooperatives and developing groups. The staff also has conducted training programs for cooperative directors at three locations, provided information about cooperatives to many groups and individuals, evaluated the current technical assistance needs of cooperatives, and informed cooperatives and appropriate Federal, State and County agencies of our presence and role in the State.

STAFF REDUCTION

Question: In FY 1983, you maintained 76 staff years; in FY 1984, 70, and for FY 1985, you propose 66. Do you expect this trend to continue? Is there a plan to eventually eliminate ACS? Was this a decision of ACS, the Department or OMB?

Answer: Up to this point, much of the reduction in staff has occurred as retirements or staff turnover have taken place. Even with these cuts, we can operate a highly useful and effective program. However, we are now approaching the point of eliminating some program areas. We do not expect a further decline in the Agency staff-year ceilings nor do we expect the Agency's elimination.

Personnel ceiling levels are a decision of the Administration.

BUDGET CHANGES

Question: In your budget notes, Classification by Objects, Object 22 "Transportation of Things" is virtually eliminated. Why?

Answer: The Agricultural Cooperative Service in previous fiscal years only used object class 22 when in the process of relocating employees. As the agency has completed relocation of it's field office staff there will be little or no expenditures listed under object class 22.

Question: "Communications, utilities, and other rent" shows a 20 percent cut from the FY 1984 level, which was 24 percent below the FY 1983 level. What is the reason for this?

Answer: The estimates for this object class is based primarily on number of employees, therefore, with the reduction of staff years in both FY 1983 and 1984 the cost of these services was reduced.

Question: Another cut comes from "Printing and Reproduction." Will publications be affected? What will be cut back?

Answer: Because most of our printing and reproduction costs come from report publishing, our publications volume will be affected. The decrease will mean fewer copies of educational publications can be made available.

Question: You are proposing a 61 percent cut from "Other services." Why such a drastic cut? Please provide a breakdown of this object.

Answer: An evaluation of the missions, goals, and priorities of agency cooperative development, technical assistance and research activities has determined that agency resources should be reduced in the cooperative research agreement and contracting area. This means that joint agreements for research by universities will be virtually eliminated. An analysis will be made to determine new policies and directions for future work.

The breakdown of this object class is as follows:

Agreements	$ 26,000
Data Acquisition	50,000
Management Services	190,000
Training	10,000
Arts & Graphics	30,000
Maintenance Contracts	30,000
WCC:	30,000
Other ADP:	4,000
Indirect Account:	104,000
Other Travel:	4,000
All Other OC 25:	45,000
TOTAL	$523,000

RESEARCH AND TECHNICAL ASSISTANCE

Question: When determining the order of priority for cooperatives receiving technical assistance, do you consider the size of the group asking for assistance? Do larger cooperatives receive higher priority than smaller groups in certain situations?

Answer: Size of the group asking for assistance is one of several criteria used in prioritizing technical assistance requests. Others are (a) does the cooperative have the resources and expertise to conduct the study by itself, without our help, (b) applicability of the request to other ongoing or expected agency work, and (c) the time frame (resource commitment) required to respond to the request. Larger cooperatives do not receive higher priority than smaller groups. In fact, most of our technical assistance activity is with small and medium size existing cooperatives or with groups of producers attempting to organize a new cooperative.

You propose virtual elimination of cooperative research and technical assistance efforts, stating that work will be reduced in several areas while you determine new policies and directions for future work.

Question: Does this mean that once you determine new policies and directions, maybe even next year, that you will include in your budget request a higher level of funding for the Agency?

Answer: An outside committee will be analyzing the Agency's programs in view of the cooperative community's needs and the agency's resource constraints. The level of funding requested will be based in part upon this committee's analysis of the resources needed to carry out the mission of the agency and the Secretary's approval to adopt new recommended policies and directions for future work.

Question: Is it wise to cut a program so severely in the midst of your analysis of what changes need to be made?

Answer: One of the reasons for analysis of the agency's programs was the current budget restrictions. We expect this Committee to take into consideration the agency's reduced resources in providing their recommendations to the Secretary.

Question: If Congress grants the cuts you have requested, what activities will the Agency be involved in?

Answer: The Agency will maintain most, if not all, of the programs it is presently involved in, but several will be significantly altered. For example, all outside research with land-grant colleges and universities will be eliminated and agency staff research reduced. The crops, cooperative management, and operations program areas will be cut by about one-fourth as will cooperative development and technical assistance to new and emerging cooperatives. However, even with these cuts, we believe we can operate a good program for the cooperatives. Of course, some university research will continue on cooperatives using State and other funding.

MONTHLY MAGAZINE

Question: Is there a subscription fee for your monthly magazine?

Answer: The Office of Management and Budget has authorized through March 31, 1987, a free distribution of up to 17,000 copies to cooperatives, their members, and those working directly with cooperatives in an educational capacity. Others can subscribe through the Superintendent of Documents for $18 per year domestic; $22.50, foreign.

A pending publications user-fee plan may reduce the number of free copies to either 7,000 or 1,000, depending on a USDA departmental decision.

COOPERATIVE STATISTICS

You cite annual statistics in your budget notes which show decreases in the number of cooperatives, the membership in cooperatives, and total business for cooperatives.

Question: To what do you attribute these declines?

Answer: The decline in number of cooperatives largely reflects a continuing trend involving merger, consolidation, acquisition, or dissolution. According to our records, from 1973-82, 43 percent of cooperatives dropped from the agency's list went out of business, 31 percent for other reasons such as no longer operating as a cooperative or inactive, 16 percent because of merger or consolidation, and 10 percent due to acquisition.

The decline in cooperative memberships reflects the decline in number of farmers and cooperatives in the United States. Many farmers are members of more than one cooperative and each membership is counted. As cooperatives go out of business, merge, and consolidate, the number of memberships in cooperatives declines.

The decline in total business volume handled by cooperatives in 1982 reflects the depressed agricultural economy. Low prices, excess supplies, and high production costs were among the severe economic conditions. On the marketing side, the lower business volume resulted primarily from lower dollar volumes reported for grain, soybean, soybean meal, and oil. Farm supply volume was down due largely to decreases in sales of petroleum products, feed, and fertilizer.

Question: You also indicate that about half of all farmers use farm supply cooperatives and about a fourth use marketing cooperatives. Will the cuts you propose in your budget affect the Agency's encouragement of farmers to increase their participation in cooperatives.

Answer: The proposed cuts will have a direct impact on research, educational efforts, and technical assistance the agency provides farmers. This will affect the Agency's encouragement of farmers to increase their organization and participation in cooperatives.

PETROLEUM RESEARCH

Question: Why is the Agricultural Cooperative Service doing research for cooperative petroleum operations concerning exploration, production, and refining? I can understand why you might do research on distribution and marketing since that directly affects agriculture and farmers might be involved in that aspect, but these other areas listed above seem improper for your agency.

Answer: We are not doing research per se on petroleum exploration, production, and refining. We are, however, conducting a survey to determine how much of the cooperatives' crude oil requirements comes from their own sources and cooperatives' share of petroleum distribution activities at the farm level. Answers to these questions are vital, particularly in times of oil shortages and/or revised crude oil allocation programs.

Question: Do you plan to continue research on petroleum cooperatives if your budget cuts are granted?

Answer: As a minimum, we would want to continue to monitor cooperative activities in distribution and marketing. More in-depth research would likely not be initiated.

TRANSPORTATION RESEARCH

Question: Your notes show that you have done research on the impact of a changing transportation environment on cooperative grain marketing. Why did the Office of Transportation not conduct this study?

Answer: Research on the impact of a changing transportation environment originated from a recent team research project on cooperative grain marketing. In this study, it became apparent from collected data and information that changes in the transportation environment have and will continue to have a tremendous impact upon cooperative grain marketing. Consequently, the agency believed that it should further identify these transportation changes and clarify the impact upon cooperatives.

The Office of Transportation did not conduct this study because detailed information had been collected during the initial ACS grain study. ACS research and technical assistance studies often require the expertise of a person with background and experience in physical distribution and transportation. ACS has such a person on its staff and he has worked closely with researchers in the Office of Transportation. Consequently, it was deemed necessary and most efficient that ACS conduct this study so that the agency can continue to carry out its mission in this area.

FIELD OFFICE CLOSINGS

Question: How much will the Agency save by closing or relocating some of your field offices?

Answer: The agency does not now plan to close or relocate any field office. A relocated field office would not save funds, but would instead increase outlays by the amount of the moving costs and possibly higher support costs at a new location.

We would move an employee of a closed field office to our Washington staff. Therefore, the year of closing may not result in a savings while the second and subequent years would reduce costs about $15,000 annually.

Question: On what basis did you make these decisions, especially the decision to close Cooperative Development field offices in Maine, Arkansas, and California? Did the cost of a new office in Hawaii have an impact on your decision?

Answer: The field office closings in Maine, Arkansas and California were motivated by reduced personnel ceilings, proposed reductions in future levels of Agency funding, and apparent lack of cooperative development potential in these States. Faced with the agency personnel reduction to 70 staff-years, the Congressional mandate to open a Hawaii field office, and staff losses through attrition, our Cooperative Development Division staff in Washington would have been depleted if these field offices had remained open.

We would, therefore, have been unable to provide significant technical assistance to new farmer groups in most of the remaining 44 States not serviced by field offices. This was an unacceptable allocation of our staff resources. We were also concerned that the proposed budget would not allow sufficient funds to service six field offices with space, secretarial service and transportation. We will continue to provide technical assistance to requesting farmer groups in these three States from our Washington office.

Funds were designated for establishing the Hawaii field office, and therefore could not be expended to maintain offices in Maine, Arkansas, and California, or to carry on other Agency programs. In addition, because the Agency was under a hiring freeze, an existing position had to be used to staff the new Hawaii field office.

PACKERS AND STOCKYARDS ADMINISTRATION

STATEMENT OF B. H. (BILL) JONES, ADMINISTRATOR

I appreciate the opportunity to appear before this Subcommittee to discuss the programs of the Packers and Stockyards Administration (P&SA) and the Agency's budget request for fiscal year 1985. First, may I introduce my associates, James L. Smith, Deputy Administrator; and Calvin W. Watkins, Assistant to the Administrator.

P&SA is responsible for enforcement of the Packers and Stockyards Act of 1921, as amended. Agency programs are designed to assure the integrity of the livestock, meat, and poultry markets and the market place. This includes assuring payment, fostering fair and open competition and guarding against unfair, deceptive and other fraudulent practices in the marketing of meat animals and the products therefrom.

Simply stated, P&SA is an investigative and law enforcement agency. Much of its work can be properly classified as countering white-collar crime, the cost of which is borne by both the producer and consumer.

Since the Act's payment amendments in 1976, the Agency has continued to redirect its resources to give emphasis to the enforcement of the amended provisions. In summary, those amendments are:

-- Packers purchasing more than $500,000 worth of livestock annually are required to be bonded.

-- Packers, market agencies, and dealers purchasing livestock are required to pay for livestock by the close of the next business day unless the buyer and seller expressly agree otherwise in writing.

-- Packers purchasing more than $500,000 worth of livestock annually and failing to pay are required to establish a statutory trust for the benefit of cash sellers of livestock. The Agency's program under this provision has resulted in the payment of $20.5 million to cash sellers of livestock since 1976. In fiscal year 1983 alone, fifteen packers paid out over $3.5 million under this program.

As livestock, meat, and poultry production and marketing continue to change, Agency programs and operations are reviewed and adjusted to meet the needs of the industry in harmony with statutory authority. The effort on the part of P&SA to review its regulatory requirements and to obtain comments and recommendations from the public is evidence of its sensitivity to changes in the livestock, meat, and poultry industries.

The enforcement of the Act and the efficiency of program activities are being substantially improved through automation. The Agencywide Information Management System (AIMS) is being designed and developed to improve the efficiency of collecting, processing and distributing investigative information and to accommodate the automation needs of the internal administrative functions of the Agency.

SCOPE OF OPERATIONS

Currently, there are 1,805 stockyards subject to the Act; 11,104 registrants, including 8,432 market agencies/dealers and 2,672 packer buyers. There are approximately 7,200 slaughtering and processing packers, and 1,000 meat distributors, brokers, and dealers. There are also approximately 375 poultry operations subject to the Act.

The value of livestock, poultry, and meat at the wholesale level subject to the Act is in excess of $60 billion each year.

The programs of the Packers and Stockyards Administration are divided into two major areas: Livestock Marketing and Packer and Poultry programs.

LIVESTOCK MARKETING

The focus of the Livestock Marketing program is on payment protection, fraudulent schemes, false weighing, and major trade practices of stockyards, marketing agencies, and dealers. Because of changes in livestock marketing patterns, more resources are being devoted to direct marketing investigations. This change in emphasis has shifted the Agency's focus to where the marketing volume and the major problems exist.

Major emphasis is given to payment protection and investigating fraudulent marketing practices. This emphasis will be continued in work planning and allocation of the Agency's resources. Fraudulent practices which occur in direct marketing include false weighing; weight and price manipulation; switching of livestock; misrepresentation as to the source, origin, and health of livestock; and custodial account violations.

Payment protection will continue to receive high priority within P&SA. A major effort is being made to prevent financial losses by allocating more resources for a strong surveillance program. The major emphasis will be directed at preventing serious insolvencies, failure to pay, failure to pay promptly, and financial fraud.

One of the major priorities in livestock marketing is to foster and maintain fair and effective competition in the industry. Any practice, agreement, or understanding which excludes a potential buyer from bidding in open competition either in direct trading or at public markets is a restraint on competition. Investigations often disclose practices which result in the lessening of competition for producers' livestock. These include apportioning of territories, price agreements or arrangements not to compete, and payoffs or kickbacks to buyers. Any information which indicates that a restriction of competition may exist will continue to be investigated on a priority basis.

PACKER AND POULTRY

The primary responsibilities of the Packer and Poultry program are to ensure open and free competition in the procurement of livestock, the marketing of meat and poultry, and to provide prompt payment to producers. Packer and poultry activities continue to provide comprehensive payment protection for sellers of livestock to packers. This protection consists of provisions for prompt payment, bonding, solvency, and a statutory trust. The existence of the packer trust has helped substantially in reducing losses to producers who sell livestock on a cash basis to slaughtering packers.

Recently, dramatic changes have occurred in the meat packing industry, including mergers, acquisitions and the realignment of ownership and operational control. These developments, along with innovations in procurement, slaughter, processing and distribution, have created additional demands on the Agency's resources.

MEAT MARKETING

Investigations of commercial bribery and illegal brokerage in the marketing of meat continue with emphasis on the operations of meat brokers and wholesale meat distributors. Firms making payoffs to meat buyers have captive accounts and enjoy a favored position over other suppliers who compete on the basis of services and/or quality.

The nature of these practices and their impact on the industry have required the Agency to devote considerable attention to such problems. In addition to payoffs to meat buyers, recent investigations have also revealed kickbacks to packer salesmen. Cases of this nature necessitate numerous subpoenas for individual and business bank accounts and may cover broad geographic areas. P&SA works closely with other Government agencies such as the FBI, the IRS and the Postal Inspection Service investigating such practices.

POULTRY MARKETING

The principal activity of the poultry program is to monitor the contractual relationship between integrators and contract growers for compliance with regulations administered by P&SA. Also, the Agency has given attention to timely and accurate weighing and adequate accounting.

This important aspect of the poultry program will be continued with particular emphasis on prompt and accurate weighing, full and adequate accounting, and payment within a reasonable time.

BOXED BEEF PRODUCTION

A recent report and ongoing analysis by the Agency indicates that boxed beef production is increasing while fed cattle slaughter remains about the same. Boxed beef production by meat packers accounted for 12.6 million carcasses or about half of federally inspected slaughter of steers and heifers in 1979 and increased to 16.5 million carcasses or 63 percent of slaughter in 1982. Concentration is increasing in both slaughter and boxed beef production. Combined market shares of the largest four boxed beef firms increased from about 52 percent in 1979 to 58 percent in 1982. These figures do not include boxed beef production by retailers.

GRADE AND WEIGHT

The Agency is continuing major emphasis in the area of livestock procurement by packers on a carcass weight or carcass grade and weight basis. A report will be published soon on a recently completed investigation concerning the marketing of hogs on a grade and yield basis. Agency personnel have met with the major industry groups to review the results of this investigation. There is a common concern with the conversion of dressed weight prices to live weight in accounting to producers. The Agency is committed to working with all segments of the industry to correct these problems.

SCALES AND WEIGHING

The major emphasis of the Agency's scales and weighing program will be directed toward weighing investigations. At present there are three primary methods of investigating weighing practices to detect fraudulent and careless weighing. They are: (1) examination of weighing records, (2) check weighing, and (3) direct sale of pre-weighed livestock. There are approximately 400 of these investigations conducted each year and about 15 percent of the firms investigated are found to be in violation. This program will be given additional priority in the future.

FISCAL YEAR 1985 BUDGET REQUEST

The total budget request of the Packers and Stockyards Administration for fiscal year 1985 is $9,035,000; a net increase of $22,000 from our fiscal year 1984 budget. The net increase consists of:

(a) An increase of $394,000 for restoration and annualization of pay costs, payment of social security on new hires, and to offset increases in nonsalary operating costs.

(b) A decrease of $372,000 for a reduction of 10 staff-years and a phased reduction of grades GS/GM 11-15. Adjustments of program priorities and improved efficiencies will provide this savings.

Mr. Chairman, I thank you for the opportunity to present this statement. My associates and I will be pleased to respond to any questions you or other members of the Subcommittee may wish to ask.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

BUDGET REQUEST

Question: Under "Classification by Objects" in your explanatory notes, you propose a decrease of $74,000 in personnel compensation, but an increase in personnel benefits. What causes this?

Answer: The increase in personnel benefits is caused by the payment of social security tax for new hires as the result of new legislation.

Question: You propose a 21 percent increase in Object 21, "Travel." Why is such a drastic increase needed, especially when you have a decrease in the number of personnel to do this travelling?

Answer: Normal expenditures for travel will be curtailed during fiscal year 1984 to absorb the 1984 pay raise increase. The increase in 1985 is to offset increases in the cost of travel and to resume normal travel operations.

Question: What types of non-salary operating costs are increasing in your agency that justify an appropriations increase in this time of budget constraints?

Answer: Increases in the costs of travel, communications and utilities, supplies and equipment are examples of the types of non-salary operating costs requiring a budget increase request.

Question: If investigative priorities will be shifted toward more serious violations, fewer investigations concerning less serious violations will obviously be a result. How can you make this shift, decrease the number of personnel, and still say that the effectiveness of the Agency's programs will not be affected?

Answer: It is not practical to maintain the resources necessary for a routine surveillance type investigative program to detect every violation of the Act which may occur. By concentrating the Agency's resources toward more serious violations, the Agency is able to identify and address the larger, more complex issues having the most significant effect on the industry. These investigations have higher visibility and a greater impact in deterring violations of the Act.

Question: In your statement, you indicate that changes in the meat packing industry have created additional demands on the Agency's resources; yet you propose a decrease in staff-years for the Agency. How do you justify this?

Answer: At any given time, changes occurring in the industry may create additional demands on the Agency's resources. One way to meet those demands is to change investigative priorities. Another, of course, is to request additional resources. At the present time, it appears that it will be possible to shift priorities, meet these demands, and accomplish an overall decrease in staff-years without substantially decreasing the effectiveness of the Agency's programs.

Question: Last year, you testified that from FY 1982 to FY 1984, the Agency's emphasis shifted from livestock marketing activities to packer and poultry activities. What percentage of funds will be provided to each in FY 1985? How does that compare to FY 1983 and FY 1984.

Answer: Approximately 51.2 percent of the funds requested for FY 1985 will be provided for packer and poultry activities and about 48.8 percent for livestock marketing activities. It is the intention of the Agency to stabilize the allocations at approximately these same percentages, barring any changes in the industry which would dictate otherwise.

INVESTIGATIONS

Question: Why do you expect to conduct fewer investigations in FY 1985?

Answer: There will be a reduction of 10 staff years in FY 1985 and a number of new investigative personnel are now being employed as a result of retirements and other attrition. These two factors could result in fewer investigations in FY 1985.

Question: How do you first find out about cases which you investigate? Do you find more from regular surveillance or from "tips?"

Answer: The Agency obtains information of possible violations of the Act from complaints, leads, and "tips" from industry sources. Annual and special reports are also analyzed for leads to unusual patterns and activities. Limited surveillance type audits and compliance checks are also made to determine if violations exist. Continuous dialogue with industry associations is another source of information that leads the Agency to violations. The majority of the Agency's investigations are initiated as a result of complaints and "tips" from industry sources.

AGENCY ACTIVITIES

Question: You show that the number of operations subject to the Packers and Stockyards Act is only an estimated number, even for FY 1983. Why do you not have an accurate count?

Answer: All firms operating subject to the Packers and Stockyards Act are not required to file annual reports. Therefore, an exact count is not available. Continuous changes in the number of smaller firms operating subject to the Act make it impractical if not impossible to maintain an exact count of the number of smaller firms operating at any given time. Various sources are used to maintain reliable estimates on the number of firms operating for purposes of administering the provisions of the Act.

CFTC LIAISON

Question: How does your surveillance of market activity coincide with the Commodity Futures Trading Commission? I noticed that you have no office in Chicago, where two very important commodity exchanges are located. Do you leave the futures market surveillance entirely to the CFTC?

Answer: The Commodity Futures Trading Commission (CFTC) has primary responsibility for surveillance of the futures markets. The

Packers and Stockyards Administration (P&SA) relies on CFTC for surveillance of the activities of firms in those markets over which P&SA has jurisdiction. P&SA provides CFTC with information on the characteristics of firms subject to the Act to strengthen their surveillance. If the CFTC should observe market performance or firm behavior, over which P&SA has jurisdiction which indicates that firms subject to the Act might have engaged in illegal activities, P&SA determines if additional investigation is warranted.

REGULATORY REVIEW

Question: What has been the response to your proposals concerning the removal and/or consolidation of regulations and policy statements?

Answer: Overall response to the regulation review program has been favorable. Responses which were critical, have given constructive comments and suggestions for changes.

SANCTION POLICY

Question: What authority does the P&SA have in regard to administrative sanctions, prosecution of violations, etc.? At what point do you refer cases to the Inspector General or the Department of Justice?

Answer: The P&S Act gives the Secretary of Agriculture authority to issue administrative complaints and orders for unfair, deceptive, unjustly discriminatory, and anti-competitive practices. In addition to cease and desist orders, the Secretary may issue administrative orders suspending the registration of market agencies and dealers. In 1976, the Act was amended giving the Secretary authority to assess civil penalties up to $10,000 per violation against any person subject to the Act, including packers. Cases involving violations of an order of the Secretary are referred to the Department of Justice. In the case of a packer, violation of an order is a criminal offense. Cases involving the willful making of false records in a subject firm are criminal matters which are also referred to the Department of Justice for prosecution. In addition, the P&S Act provides for action through the Department of Justice for enforcement of subpoenas and for violation of certain sections of the Act. The Agency maintains liaison with the Inspector General to avoid duplication and to coordinate investigative resources where violations may cross jurisdictional lines.

FOOD SAFETY AND INSPECTION SERVICE

STATEMENT OF DR. DONALD L. HOUSTON, ADMINISTRATOR

Mr. Chairman, I am pleased to appear before this committee to discuss the fiscal year (FY) 1985 budget for the Food Safety and Inspection Service (FSIS). Before discussing the details of the request, I want to review our efforts to control costs within the inspection service.

As the committee knows, over the past five or six years, FSIS has undertaken major initiatives to hold down the costs of inspection. FSIS, along with this committee, realized that if steps were not taken to achieve efficiencies in operations, the costs of inspection would soar and become excessive. Our drive to modernize the inspection program and improve its efficiency was begun long before the current emphasis on cost cutting. For example, we realigned the field structure of the agency, modernized and improved the efficiency of processing and slaughter inspection, and streamlined administrative support. These changes have enabled us to keep pace with the growing volume of meat and poultry products inspected.

A large part of this cost-avoidance has come through improved productivity. In FY 1978, 8,394 Department of Agriculture (USDA) inspectors inspected 49 billion pounds of slaughtered meat and poultry and 92 billion pounds of processed products. By 1983, fewer than 7,600 inspectors examined 52 billion pounds of slaughtered meat and poultry and 112 billion pounds of processed products. Because of program improvements during these years, we were able to reduce employment by nearly 9.5 percent but increase productivity per inspector by 29 percent.

Our ability to make managerial improvements has not kept pace with recent demands for agency resources. For example, since 1978 the volume of processed products inspected has increased almost 22 percent. Also in those years, six States ended their inspection programs, and FSIS had to assume responsibility for inspection at almost 900 plants that had been State inspected, in some cases without corresponding increases in funding. In other areas, the 1981 Farm Bill and our own initiatives have led to the institution of new programs in import inspection. Major infractions of the inspection laws in recent years have also consumed large amounts of time and effort and have required us to divert resources away from routine enforcement activities. Furthermore, the agency has had to absorb unrealized savings resulting from legislative and program proposals that were not enacted. As a consequence, we have had to postpone planned improvements in the residue program and to transfer off-line inspection personnel to fill vacancies in on-line slaughter inspection.

FY 1985 BUDGET REQUEST

In view of the increased demands placed on the inspection program, we urge the Congress to consider increased support for certain areas of concern. The budget presented to this committee proposes an FSIS appropriation for FY 1985 of $356,067,000. This is an increase of $18,009,000 over the FY 1984 adjusted appropriation. The increase breaks down as follows:

•$4,246,000 for the FY 1985 costs of the January 1984 Federal pay raise;

•$3,669,000 for increased operating costs, including a $1,691,000 increase in the Grants to States program to maintain the Federal share of State inspection program costs; and

•$10,561,000 for program improvements, including $2,018,000 for enhancing program integrity and controlling criminal activity; $1,775,000 for strengthening import inspection, both at foreign establishments and at U.S. ports; $4,768,000 for the residue control program; and $2,000,000 for increasing the slaughter inspection workforce.

The total of these figures represents $467,000 more than we are requesting; management savings will make up the difference.

PROGRAM INTEGRITY

The U.S. Department of Agriculture has a long tradition of public service and consumer protection. Consumer confidence in our food supply is high. Recent polls released by the Roper Organization and the Goodhousekeeping Institute indicate that about 75 percent of the public believes that Government is doing a "good" to "very good" job in the area of food safety. The low incidence of foodborne diseases in the United States further attests to the high standard of public protection in this country.

USDA is proud of its achievements and intends to maintain this high level of protection. However, doubts have recently been raised about the safety of meat and poultry products. Some critics have questioned USDA's motives in instituting and proposing new inspection procedures. At the same time, publicity from the media and public interest groups has focused on questionable practices in the small segment of the meat and poultry industry that conducts business in a way that may not always be in compliance with our food safety laws.

USDA strongly believes that steps must be taken to maintain consumer confidence in the Nation's meat and poultry supply. Thus, on December 9, 1983, the Department announced a five-point program to address these issues. As part of the program, USDA has contracted for an independent review of the inspection system, has taken steps to strengthen existing regulatory authorities, and has tightened eligibility requirements for entry into the meat and poultry procurement program. The five-point program consists of:

1. More intensive regulation of plants with a poor history of compliance or whose operating practices are marginal. The meat and poultry industry is, as a whole, responsible, properly managed, and concerned about complying with USDA requirements. Nevertheless, USDA has learned that traditionally there is a small percentage (about 5 percent or less) of plants and individuals in the industry who cannot or will not consistently operate within acceptable bounds. This minority accounts for much adverse publicity from groups inside and outside government, bringing the entire industry under a cloud of suspicion and raising questions about the effectiveness of government regulation.

Traditionally, USDA has applied inspection and other resources uniformly throughout the industry, with the result that plants have been treated equally in terms of inspection staffing, supervision, and regulatory controls. This policy has constrained efforts to intensify the scrutiny and regulatory efforts directed to known problems. In attempting to use existing resources more effectively, USDA will tailor inspection to specific problems in particular plants. It will identify plants that have clearly established records of noncompliance. Plants in this category will require special oversight, including, where necessary, additional laboratory testing, assignment of additional inspectors, special training for inspectors, closer supervision, and the broader use of court injunctions. On December 13, 1983, FSIS published in the Federal Register a policy statement on actions for intensified regulatory enforcement. Passage of the compliance-based legislative proposal would also enhance our efforts to effectively regulate these problem plants.

2. Tightened eligibility requirements for plants desiring to sell meat and poultry products to the Federal government to ensure that all bidders are capable of producing satisfactory products. This program also includes increased testing of product at origin and destination to ensure compliance with contract requirements.

3. Drafting of a legislative package to expand the Secretary of Agriculture's authority to withdraw inspection from meat and poultry plants and shut down operations. FSIS is currently preparing a legislative package that would authorize USDA to initiate proceedings to withdraw inspection based on a pattern of repetitive infractions of the inspection laws and substandard practices. This administrative action would not depend on any action taken as a result of criminal investigation, such as a successful prosecution. It would also allow USDA to withdraw inspection service summarily, before an administrative hearing, if a plant or an individual responsibly connected with a plant has been convicted of a major infraction of the law. Currently, administrative hearings can delay withdrawal for years after conviction of a serious offense.

4. Improved coordination with the Department of Justice to ensure active pursuit of criminal prosecutions and sanctions for food safety offenses.

5. A thorough and independent review of the effectiveness of existing and proposed inspection approaches by the National Academy of Sciences.

In addition to having to deal with recurring enforcement difficulties in certain plants, FSIS has recently encountered a string of incidents that point to a rise in criminal activity. In this connection, I am not talking about minor infractions or even serious mislabeling violations, which are forms of economic fraud but do not endanger the public health. I am talking about serious violations that reflect a total disdain for the public well-being and a wanton disregard for the law. Recent examples include:

•The 1981 conviction of an Ohio packer for conspiracy and related charges involving an elaborate after-hours scheme to slaughter 4-D (dead, diseased, disabled, or dying) animals. The firm obtained USDA brands from a locked box and regularly used a pattern of harassment and diversion of inspectors to allow the plant to mingle the illicit products with inspected and passed products.

•The 1982 conviction of a California processing plant for processing and selling putrid sausage with added water with intent to defraud. The company used manipulated scales and an elaborate scheme, including walkie talkies, to warn its employees of the approach of inspectors.

•The 1983 conviction of a Pennsylvania packer for conspiracy to violate the Federal Meat Inspection Act, slaughtering and preparing diseased cattle without Federal inspection, transporting and selling uninspected meat, and the unauthorized use of a USDA meat brand.

•The 1983 conviction of a New Jersey packer for failure to destroy condemned carcasses and the preparation of meat for use as human food from condemned materials.

•The 1983 conviction of a New York packer for one felony after he admitted, in plea bargaining, that he used diversionary tactics to harass, confuse, and frustrate inspectors, so they would not properly inspect diseased animals, thereby permitting unwholesome meat to enter the food supply. The packer had been a source of almost continuous complaints and challenges to local, area, regional, and headquarters officials over a 3-1/2-year period.

Serious violations such as these have consumed an enormous amount of FSIS resources in investigating the violations; locating, detaining, and testing suspect product; and developing a legal basis for prosecution. As a consequence, FSIS enforcement personnel have spent time on such cases that they would otherwise have spent on conducting regular compliance reviews of meat and poultry products in distribution channels and of industries allied to meat and poultry food production. Reflecting this shift in resources is the fact that from FY 1981 through FY 1983 the number of compliance reviews dropped from 44,283 to 39,909, or about 10 percent. Despite this decline, the number of violations detected during the reviews rose dramatically, from 502 to 674, or about 34 percent.

Inadequate monitoring of product in distribution channels leaves open the possibility that unsafe meat and poultry products may reach consumers. In addition, opportunities are created for individuals to violate inspection laws and to gain financially at the expense of their law-abiding competitors. FSIS is particularly vulnerable to criminal activity and breakdowns in program integrity because of its large decentralized workforce and substantial delegation of authority.

As part of its budget request for FY 1985, FSIS has asked for a $2,018,000 increase for activities related to program integrity and control of criminal activity. The increase will pay for 40 additional staff-years, including 30 additional compliance officers. The compliance program currently numbers about 110 employees, including about 80 compliance officers. The additional staff will enable FSIS to increase the number of reviews of industries allied to meat and poultry food production and to ensure that enforcement activities keep pace with the technological and scientific advances of the industry. It will also allow FSIS, in conjunction with USDA's Inspector General and other law enforcement agencies, to develop evidence of criminal wrongdoing promptly when such activites are uncovered. Finally, FSIS will also be able to expand its efforts to promote high standards of conduct among its employees.

IMPORT INSPECTION PROGRAM

Over the last several years, FSIS has undertaken new initiatives in the import inspection program. Some were undertaken at the direction of the Congress or after recommendations by the General Accounting Office, while others are a result of FSIS' own efforts to modernize the program and improve its effectiveness and efficiency. Because the new programs require expanded activities by FSIS, additional personnel and resources are needed. Thus, an increase of $1,775,000 for import inspection has been included in the FSIS budget request for FY 1985. Events of the last several years have clearly demonstrated the need for increased resources in this area.

The Australian Incident and the 1981 Farm Bill. In August 1981, FSIS discovered that shipments of boneless beef from Australia had been adulterated with horsemeat and kangaroo meat. This incident highlighted the need for routine testing to prevent species substitution as well as the need for an accelerated review of the import inspection program. As a partial response to the episode, FSIS incorporated routine testing for species into the inspection program for imported and domestic product. It also stepped up its efforts to improve the overall import program.

At the end of 1981, Congress enacted the Farm Bill (Agriculture and Food Act of 1981), which required that imported meat products be "subject to the inspection, sanitary, quality, species verification and residue standards" applied to domestic product. On February 10, 1983, FSIS published a notice in the Federal Register that amended the Federal meat inspection regulations to clarify that these standards and requirements apply to imported product. The regulations stipulate that in order for a country to establish or maintain eligibility to export to the United States, it must have species verification and residue testing programs "at least equal to" USDA's programs for domestic product.

Since passage of the Farm Bill, FSIS has devoted a large amount of its resources to implementing this regulation, including notifying countries of requirements of the legislation and evaluating whether countries that export to the United States are in compliance. For species verification, FSIS interprets the provision to mean that a country must have either a series of controls adequate to prevent the introduction of illegally prepared or unauthorized meat into export channels or that it must have implemented a testing program to verify the species of exported product. During 1983, FSIS conducted in-depth reviews of the species control programs of all exporting countries. FSIS also collected information about the residue testing programs of all exporting countries, including data about tissues analyzed, compounds for which tests were conducted, and methods of analysis.

After the reviews, FSIS notified countries about their status in light of the Farm Bill. Twenty-three countries were told that USDA might revoke their eligibility to export meat and poultry products to the United States if they did not make improvements in their species verification or residue programs by the beginning of 1984. Some of the countries took corrective actions. However, in late December 1983, 14 countries were notified that USDA would revoke their eligibility because of deficiencies in those two areas of their inspection programs. The countries were the Dominican Republic, El Salvador, Haiti, Mexico, Nicaragua, Panama, Honduras, Romania, Sweden, Finland, Belgium, Switzerland, Ireland, and France. The imminent loss of the U.S. market prompted many of these countries to take strong, last-minute action to come into compliance.

Also in 1983, FSIS removed Czechoslovakia from the list of countries eligible to export to the United States because of its inability to control polychlorinated biphenyl (PCB) residues. Czechoslovakia was reinstated on December 30 after it had demonstrated its ability and commitment to preventing PCB contamination of products exported to the United States. FSIS will continue to take strong measures to enforce the Farm Bill provisions.

After the Australian incident, FSIS faced another problem that intensified its review of the import program. In 1982, meat from Costa Rica that had been refused entry by USDA was illegally imported into the United States. On March 30, 1982, FSIS issued a bulletin to inspectors to strengthen procedures for the identification, control, and reexportation of refused-entry product. A final regulation on the procedures was issued on April 13, 1983. The most significant change is that FSIS now maintains control over all refused-entry product until it is either destroyed, converted to nonhuman food use or exported. Responsibility for controlling the movement of refused-entry product had previously been shared with the Customs Service.

GAO Review and the FSIS Modernization Program. As a result of these problems, in 1982 the General Accounting Office began a review of the import inspection program. GAO auditors visited 82 plants in several countries, studied administrative aspects of both the domestic and foreign inspection programs, and visited 10 major U.S. ports of entry. A report was issued in June 1983. In July, FSIS testified on the import program before the House Agriculture Subcommittee on Livestock, Dairy, and Poultry.

The import program centers on two activities: (1) the review of foreign inspection programs, including the determination of the eligibility of countries to export to the United States; and (2) port-of-entry re-inspection. In 1979 a USDA task force recommended a new approach to foreign program review that emphasized a broad evaluation of the regulatory program of each exporting country in addition to individual plant reviews. To do this, the task force recommended that USDA collect objective data on the ability of a foreign country to control six basic areas of concern: residues, disease, the misuse of food additives, gross contamination, microscopic contamination, and economic fraud. Once USDA collected data in these areas for each country, it would be able to evaluate the risk that a country would be deficient in an area and could direct increased resources to risk areas.

At the same time that FSIS was evaluating the compliance of exporting countries with the Farm Bill, it accelerated its program to assess the ability of exporting countries to control the six risk areas. After the Australian incident, a seventh risk area--product integrity--was added. By December 30, 1983, FSIS had completed basic reviews of 12 major exporting countries, which account for over 90 percent of imported meat products.

In addition to recommending a systems approach to foreign program review, the task force recommended that USDA restructure port-of-entry inspection. In 1979, USDA adopted the Automated Import Information System (AIIS), a computerized information system recommended by the task force. The AIIS receives and stores daily inspection results from all ports and compiles histories for every establishment eligible to export to the United States, based on the results of product inspection and laboratory analyses. It prints inspection assignments for port inspectors based on the product history of an establishment.

In its June 1983 report, GAO generally endorsed FSIS' efforts to modernize and improve the foreign review and the port-of-entry inspection programs. GAO found that the overall quality of plants that export to the United States had improved since its last audit in 1972. This time, however, GAO made a number of recommendations concerning foreign program review and port-of-entry inspection procedures, including improved training and supervision of port inspectors, updated instructions for inspectors, and the appointment of inspectors-in-charge to all major ports.

To complete these and other improvements, FSIS has requested for FY 1985 an increase of $1,775,000 and 34 staff-years for enlarging the foreign program review staff, for a significant expansion of the port-of-entry inspection force, and for improvements in the AIIS. Under the revised foreign review program, the job of the FSIS reviewer will be significantly expanded. In addition to conducting plant reviews, the reviewer will analyze system-wide activities and will be responsible for documenting the effectiveness of foreign programs related to the seven risk areas. The additional resources will also enable FSIS to improve its examination of foreign inspection laws, regulations, and policies. An increase in the number of port inspectors will enable inspectors to conduct more thorough product examinations in order to implement uniformly the tightened standards imposed on foreign product. Additional inspectors are also needed to implement the stricter controls on refused-entry product. In addition, FSIS needs to enlarge the capacity and revise the programming of the AIIS.

THE NATIONAL RESIDUE PROGRAM

In FY 1982 FSIS received a $3.2 million increase for the National Residue Program and a $4.8 million increase in 1983. Unfortunately, FSIS found it necessary to use the 1983 increase to finance the Congressional directive to keep open the agency's 27 area offices. Thus, in the FY 1985 budget, FSIS is again requesting a $4.8 million increase for the National Residue Program. The increased appropriation is slated for methods development, modernizing laboratory equipment, and increasing the number of samples analyzed for the presence of illegal residues, consistent with the expanded capability of FSIS laboratories to examine tissues for a larger number of compounds. In addition, the increase will enable FSIS to complete the Contamination Response System by assigning residue experts to the regional offices and other field locations.

On September 9, 1983, the General Accounting Office published an overview of past studies related to monitoring and enforcing food safety. In the overview report, GAO concluded that although improvements have been made, areas of concern remain, including aspects of the National Residue Program. FSIS agrees with GAO that improvements are needed in this and in other areas of the inspection program. It also believes, however, that over the years the residue program has proven its value not only to consumers but also to the meat and poultry industries and farm producers. The ethylene dibromide (EDB) crisis is the most recent example.

In 1975, the National Cancer Institute added EDB to its list of cancer-causing substances, and since then EDB has been linked to genetic damage and other serious health problems. In 1980, EPA tests showed EDB in flour and biscuits destined for the school lunch program. Later, in September, 1983, this finding was reported in the media, as were private laboratory test results obtained by a local television station showing EDB in two steak samples. The latter report raised questions about the possible presence of EDB in the meat supply.

After the 1983 reports on EDB in the food supply, FSIS moved immediately to develop, in cooperation with EPA and FDA, an official laboratory testing methodology for meat and poultry. At the same time, it collected 300 fat samples from domestically produced cattle, swine, and poultry and 30 samples from imported boneless beef. Of the total samples, only one was found positive for EDB--a boar fat sample containing 3 parts per billion. Additional samples taken from the same geographic area were all negative. The results of the testing program, which was completed by mid-October, mean that we can have a high level of assurance that meat and poultry products are not contaminated with EDB. FSIS' quick response to the EDB crisis assured consumers of the safety of the meat and poultry supply and thus prevented disruption in the meat and poultry industries. Testing for EDB has now been incorporated into FSIS' routine monitoring program.

New Directions in the National Residue Program. Crisis management, through the Contamination Response System, is an important component of the National Residue Program. In recent years, however, FSIS has developed a broader philosophy to residue control. Formerly, the Agency was forced into a largely passive role: information about residues came in fragments and frequently as bad news such as major contaminations. FSIS data was derived primarily from its monitoring activities and not from direct knowledge of how and where chemical substances were being used. There was little or no exchange of knowledge with industry. FSIS resources were concentrated on pressing problems such as arsenicals, chlorinated hydrocarbons, and sulfas. From this experience, FSIS concluded that regulatory control at the end of the production chain can lead to correction of industry practices, such as the banning of dieldrin and DDT, but that prevention of residue violations had to be done by producers. Government could then verify the success of preventive programs. The alternative--exhaustive sampling of meat and poultry products--would cost billions of dollars, destroy enormous quantities of food, and inflate prices for consumers.

Following this rationale, FSIS undertook a program to educate producers about the benefits of following approved use practices of drugs and pesticides in order to prevent residue problems at the source. In addition, instead of trying to multiply, at tremendous cost, the number of samples taken, as a second major approach FSIS sought ways to increase its ability to generate more data per analysis.

Residue Avoidance Program. FSIS and USDA's Extension Service began working with producer organizations in 1981 to develop a preventive approach to the problem of drug and other chemical residues in animals. Over a three-year period, FSIS has transferred $3 million to the Extension Service for projects carried out by land grant colleges. To date, the program has funded 49 projects in 34 States designed to expand knowledge of animal drugs, agricultural chemicals, and the extent and nature of residue problems. Researchers are studying livestock production systems to determine the critical points at which contamination can occur and to develop farm management practices to avoid residue problems.

FSIS and the Extension Service are also collaborating with producer organizations on educational efforts to introduce residue avoidance concepts to all farmers. An example of these projects involves drug residues in veal calves. Over the last several years, there has been a continued high incidence of violative antibiotic and sulfa residues in calves sent to slaughter shortly after birth, particularly in the Northeast and North Central United States. To address this problem, the Residue Avoidance Program has funded three projects that focus on drug treatment, farm management practices, and producer education programs. FSIS hopes the projects succeed in significantly reducing the violation rates.

Cooperative residue agreements. Because of its production practices, the poultry industry is particularly committed to residue avoidance. Most broiler chickens are produced by firms with residue control programs that include residue testing of feed and birds before slaughter. FSIS and the National Broiler Council recently entered into a cooperative residue agreement that serves as a model for agreements with individual companies. Several integrated poultry operations have already signed agreements with FSIS, based on the model document. Under the agreements, when company testing points to a residue problem, the company informs FSIS so that joint preventive action can be taken before slaughter. The agreements can alert FSIS to potentially widespread problems before products enter consumer channels. FSIS is currently developing a similar agreement with a large beef cattle producer.

Development of New Testing Methodology. FSIS' program for developing new testing methodology will be directed toward: (1) the development of multi-residue screening methods or improved analytical methods for laboratory testing of compounds currently being analyzed; and (2) the development of testing methods for compounds of concern but for which no testing methodology exists for meat and poultry products.

Multi-residue screening tests and improved methodology. In recent years FSIS has undertaken the development of new testing methods that are flexible, convenient to use, and inexpensive, in contrast to many standard laboratory testing methods. Although standard methods are definitive and provide results for regulatory use, FSIS has found that quick, inexpensive screening tests are important tools for providing the Agency and producers with information about both specific and general residue problems.

An example of a screening test is the STOP test (Swab Test on Premises), which FSIS instituted in 1979 to detect antibiotic violations in cows. The STOP test is performed by inplant inspectors, and results are available within 18 hours--before a carcass leaves the slaughterhouse. The test has been instrumental in reducing antibiotic residue violations in cows from between three to four percent in 1978 to less than one percent today, and it has done so economically. The STOP test was extended to all species in 1983.

As part of the Residue Avoidance Program, FSIS is evaluating the usefulness of similar tests for checking feed and animal urine on the farm. In 1983, USDA distributed about 20,000 copies of a handbook that provides instructions on performing and interpreting the results of the Live Animal Swab Test (LAST). The LAST test was adapted from the STOP test and is designed as a simple, overnight animal urine test that can be used by farmers and veterinarians. Although the test was developed primarily for use with dairy cows, it is now being used for beef cattle as well. A similar test for poultry is now available, and a test for sulfonamides in swine tissue is being developed.

In 1983, FSIS used a new test developed in the Netherlands for screening male calves for diethylstilbestrol (DES), the banned growth promotant. The screening test was used to survey fancy veal calves for DES after FDA had sought a court injunction against four producers of fancy veal who had used the compound. Other quick screening tests instituted in 1983 and developed by FSIS include the Overnight Rapid Beef Identification Test (ORBIT), designed for use by in-plant and port-of-entry inspectors to screen beef for species verification. In addition, FSIS developed two simple tests that allow inspectors to test cooked roast beef for safety and imported canned corned beef for flat sours (spoilage without gas formation, which causes cans to swell). Although such tests do not involve residues, they represent important steps in improving the effectiveness of the inspection program.

FSIS scientists are also working to apply new technology that speeds testing. For example, they are studying the feasibility of developing and applying a new technique--slurry atomization analysis--for the analysis of meat and poultry products. The method provides rapid analysis for sodium, potassium, and other trace elements such as cadmium, calcium, tin, arsenic, and aluminum. The analyzer would improve the monitoring for toxic metals and provide an efficient procedure for nutritional analysis. FSIS will also continue to develop procedures that make it possible to check one sample for several residues and to expand its capabilities for residue testing.

Development of tests for compounds not currently being tested. In its 1979 report on the residue program, the GAO cited the limited number of compounds for which the residue monitoring program was able to test. FSIS agreed with this concern, and expanded its capability for testing from 46 compounds in 1979 to 117 to date. We hope to continue this progress.

Plans for the coming years feature a flexible system of monitoring for residues on a rotational basis. Selection of substances for analysis will be made after all possible compounds of interest are considered and after compounds unlikely to present problems in meat and poultry production are eliminated. As part of the rotational monitoring system, FSIS will publish in 1984 a convenient reference book that for the first time lists drugs and chemicals that may be found in meat and poultry products. The compounds will be ranked according to actual or probable use, the conditions of use, potential misuse, and toxicity. FSIS will evaluate compounds on this basis. After reviewing its laboratory capability for testing for the compounds, it will then formulate annual monitoring and methods development plans. With the added information on use gained through cooperative agreements, we will be able to identify crucial areas of interest, and direct resources to compounds of concern.

In addition to ranking compounds, the reference book will identify analytical methods used by FSIS and the violative level for each chemical and drug. The publication, which will be updated every year, will be an important tool in the testing program. The project also responds to a concern that GAO expressed in its 1979 report on the residue program.

SLAUGHTER INSPECTION

In recent years, we have limited our hiring of inspectors because of unrealized savings and the need to absorb unanticipated costs. This has led to an inspector vacancy rate that is becoming increasingly difficult to manage. In its September 1983 overview of food safety, GAO also noted this problem. Generally, FSIS can operate with a vacancy level of about 150 in slaughter inspection without a significant loss in effectiveness. It does this by detailing inspectors whose assigned plants are temporarily closed, utilizing intermittent employees, and reassigning processing inspectors. Beyond that level, however, off-line inspectors have to be transferred from other areas in plants to work on the line, and veterinary inspectors in charge of plants have to be assigned to line positions.

Continued understaffing of off-line inspector and supervisory positions increases the risks of economic fraud, inadequate supervision, product defects, and reduced attention to off-line duties such as sanitation. FSIS believes that it is imperative to avoid further weakening of off-line inspection functions. Thus, it has included in its FY 1985 budget request a $2 million increase for slaughter inspection staffing. The slaughter inspector workforce will be expanded by 49 staff-years. Inspectors and veterinarians will be assigned to slaughtering establishments around the country. Our request for additional positions does not mean that we have ended our efforts to modernize slaughter inspection. We do not, however, foresee the development or implementation of new inspection procedures that will significantly relieve the current strain on inspection resources over the next few years.

Slaughter Inspection in the 1980's. FSIS' program for modernizing slaughter inspection can be considered a three-stage process, the initial two stages of which are similar for poultry and red meat. The first involves rearranging and streamlining the job of inspection. Modified Traditional Inspection, adopted in 1979 for broilers, was the prototype and most successful effort in this phase of modernization. Swine inspection procedures were also revised in 1981 to eliminate certain techniques and to replace other techniques with less intensive but equally effective measures. Currently, we are studying combining inspection activities at the carcass inspection station with those at the viscera station to improve efficiency. For cattle inspection, FSIS is developing procedures that both streamline techniques and realign inspection stations.

The second phase, which is just beginning, will restructure the job of inspection by focusing inspection resources on the detection of disease and shifting responsibility for identifying and correcting processing defects, such as bruises or dirt, to plant-operated quality control systems. Inspectors will monitor operations to ensure that processing or manufacturing defects have been corrected. FSIS is currently working on the New Line Speed inspection system for broilers and the New Turkey Inspection system, both of which incorporate the second-stage approach and allow an increase in the rate of inspection. The Agency is also developing on-line statistically based quality control systems that will require the red-meat industry to control manufacturing defects, with inspectors monitoring the results of the application of the quality control systems.

FSIS envisions as the third stage in poultry inspection a cooperative system in which industry assumes a large share of the responsibility for inspection, with FSIS monitoring and overseeing the operation. The third stage in red-meat inspection may involve adjusting the intensity of inspection by prevalence of diseases in specific geographic areas. FSIS has implemented the Animal Disease Reporting System, which will be an important informational tool in determining inspectional needs in the future.

Mr. Chairman, FSIS is working hard to both improve efficiency and give the American public increased assurance that the meat and poultry products they buy are wholesome and unadulterated. We ask you for the support necessary to accomplish these efforts. Thank you. This completes my prepared statement; I will be happy to answer any questions you or other committee members may have.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

SLAUGHTER INSPECTION STAFFING

Question: In your statement, you cite statistics which indicate that you have reduced employment in your agency but have increased productivity per inspector substantially in the last 5 or 6 years. You attribute this to program improvements; yet you claim that the program has been hindered because you have had to shift personnel from supervisory and other off-line positions to line positions, and you have doubled assignments. This begs the question as to the wisdom of reducing employment while your operations are hindered in the process. Could you justify these actions, or is the FY 1985 request for more staff-years based on the realization that the trend has been a mistake in policy?

Answer: USDA's policy of devising better and more economical inspection procedures has been successful and it will continue. The new slaughter inspection procedures developed and implemented over the past five years have proven as effective as the techniques they replaced. They have allowed reductions in the numbers of inspectors in certain plants by eliminating or minimizing motions required of inspectors. Furthermore, they have encouraged greater productivity in the industry.

The first and most successful of the new procedures was Modified Traditional Inspection (MTI) for broiler chickens. MTI introduced hand motion economies by dividing tasks among three inspectors, superceding the traditional method whereby one inspector performed all of the inspection task for a bird. MTI allowed plants with three inspectors on a line to increase their linespeeds to 70 birds per minute from the previous maximum of 54. In the process, FSIS was able to eliminate 207 inspection positions.

The second most successful adaptation was to swine slaughter inspection techniques. Palpation of some swine carcass parts and internal organs was replaced by observations. The need to turn the carcass to observe the back side was replaced through the use of a mirror. These changes allowed the elimination of 65 positions in 52 large swine slaughter plants. The maximum allowable linespeeds were increased 50 percent because of the new swine inspection procedures.

The implementation of these and other labor-saving, cost-efficient methods has not caused any degradation in inspection quality nor has it contributed to the shortage of inspectors. Without the economies the new procedures have allowed, today's staffing shortages would have been far worse.

While the Agency's efforts to control costs and develop labor-saving inspection methods have helped reduce the need for additional inplant inspectors, the gap between the number of positions required to provide inspection services to the industry and the number of inspectors available to fill them has grown to the point where we must make an effort to begin adding staff to reduce the risks to the integrity of the inspection program. The 49 staff-years for inplant slaughter inspection FSIS is requesting in 1985 will help avoid the potential ill effects of understaffing: economic fraud, inadequate supervision, product defects, and reduced off-line inspection quality. We are not, however, requesting inspectors to fill every vacancy in slaughter plants. Many vacancies can be adequately covered by intermittent employees and by inspectors whose assignments elsewhere are inoperative. This request proposes to fill some of those vacancies which require the transfer of supervisors and off-line inspection personnel to the inspection line.

Question: I noticed in your budget notes that the pay grade with the highest number of employees in FSIS is GS-7. Are any of your inspectors GS-7's?

Answer: At the end of fiscal year 1983, nearly 3,100 of the Agency's slaughter inspectors were GS-7's. This is over one-half of all inplant slaughter inspector positions.

Question: Are these the people for whom you have doubled assignments?

Answer: We do not double assignments on the inspection line except in the most extreme cases. In most cases when there is a vacant line position, an off-line or supervisory employee will be moved to the line position. In this way all line positions are covered and it is off-line assignments that must be doubled.

Question: Do you feel the inspectors are underpaid?

Answer: Our inspectors work very long, hard hours for their pay which is set by Federal employees classification standards. Excluding supervisory personnel and veterinarians, all the Agency's slaughter inspectors are graded as GS-5, GS-7, GS-8, or GS-9, with nearly 75 percent of them occupying GS-7 positions. Also excluding supervisors and veterinarians, almost all FSIS processing inspectors occupy GS-8 through GS-11 positions; 75 percent of them are graded GS-9. Inspectors have an excellent career ladder and there are many opportunities for advancement.

Question: What is the average salary for inspectors?

Answer: The average base pay for a GS-7 slaughter inspector is approximately $20,000 per year and the average base pay for a GS-9 processing inspector is about $24,000 per year.

Question: One of your great concerns, logically, is bribery, kickbacks, etc., which involve inspectors and the operations they inspect. Doubled assignments and the possible feeling of being underpaid would seem to discourage morale in the Agency and would seem to encourage the corruption which you fear. Do you agree?

Answer: The vulnerability of this Agency's employees to corruption is probably more a matter of available opportunities for illegal or unethical behavior rather than the pay scale or difficult job assignments. Inspection personnel make decisions about products which have significant monetary effects on the regulated businesses. Many of these decisions are judgmental and are made without close supervisory review. Some producers perceive the opportunity to use bribery, gratuities, threats, or extortion to have questionable inspection decisions made in their favor. Some individuals in the inspection force, whatever their duties or pay, are easier targets than others for illegal offers or threats.

While it is possible that giving an inspector two assignments, thereby increasing workload, may cause damage to that individual's morale, there is no evidence to suggest that it would cause a decline in moral standards, or that it contributes to corruption. In any case, FSIS strives to avoid doubling-up of line inspection positions as much as possible. We prefer to use intermittent employees, inspectors whose regular assignments are inoperative, or off-line inspectors instead.

The feeling of being underpaid might be used to rationalize taking a bribe or engaging in illegal or unethical activities, but for us to accept the pay scale as a cause of corruption would impugn the integrity of the vast majority of similarly-paid individuals in the FSIS workforce who do not act unethically.

Question: You now allow field inspectors to handle many label change approvals, rather than having all the changes sent to headquarters. Does this not put an additional burden on your seemingly already overworked field staff?

Answer: Approval of product labels in the field is carried out by inspectors-in-charge in operations which further process meat and poultry products. It is not in these processing establishments, but in slaughtering establishments that FSIS faces understaffing problems. Processing plants need only be visited by inspection personnel at some time during the day, giving the Agency greater flexibility in assigning personnel.

The actual duties of field label approval are well within the capabilities of FSIS inspectors-in-charge (IIC). The types of labels which may be approved by IICs are generally simple in nature. Complex labels must still be sent to Washington for approval. Label approval procedures usually take no more than a few hours a month for most IICs.

MANAGEMENT REDUCTIONS

Question: Most, if not all, agencies are involved in a phased reduction of positions in grades GS/GM 11-15, which you indicate will save the Agency $377,000. While you have minor reductions in grades GS/GM 12-15, your GS-11 staff-year request for FY 1985 is an increase over FY 1984 of 77 staff-years. How do you explain this; where are the savings coming from and are any of these GS-11's former GS-12's or higher?

Answer: The phased grade reduction will affect 68 grade 11-15 positions in 1985 to yield a saving of $377,000. As part of the grade reduction, the number of GS-11 positions increases by 18 because 33 grade 12 positions are reduced to grade 11 while 15 grade 11 positions are reduced to grade 9. Requested program increases for 1985 would add 71 employees in upper grades, including 59 in grade 11, mostly veterinarians and compliance officers.

TRAVEL INCREASE

Question: Under "Classification by Objects" in your budget explanatory notes, you are requesting an increase of over $2 million in travel appropriations. Please justify.

Answer: The largest increase of $766,000 is for rising costs associated with inflation. The remaining increases in travel consist of: $652,000 to be used in slaughter staffing for travel costs associated with training of new inspectors and veterinarians, temporary details for on-the-job training inspectors, job-related travel for new employees, and increased supervisory visits, as well as correlation and work unit meetings at slaughter plants; $340,000 will be used for compliance and emergency programs officers travel; $161,000 is for travel relating to import inspection; and $100,000 is for the residue program, primarily for travel costs for the Contamination Response System.

OTHER SERVICES

Question: Likewise, you are asking for a $3.7 million increase in "other services." Please justify this and give a breakdown of "other services."

Answer: The $3.7 million increase in other services consists of: (1) inflation related costs of $600,000; (2) $1,000,000 primarily for contracts for the development and evaluation of on-site as well as new laboratory procedures for the detection of residues and chemical compounds in meat and poultry products; (3) $200,000 for additional costs on three current sampling contracts with State and private laboratories; (4) $400,000 for safety renovations to laboratory facilities; (5) $600,000 for the update of the Laboratory Sample Flow System; and (6) $900,000 for ADP equipment repairs and improvements, training, relocation expenses and departmental support. The classification "other services" includes expenses for: agreements and contracts, training, repairs, ADP, transfers of station and other miscellaneous items such as bad debts, civil defense, Federal Protective Service, health units, and reimbursable details.

EQUIPMENT

Question: You are requesting more than double the fiscal year 1984 amount for equipment. What new equipment will you buy with this?

Answer: The increase will primarily be used for new analytical equipment and instrumentation for the new Western Laboratory. Also the Beltsville, Eastern and Midwestern Laboratories require upgrading and replacement of analyical equipment. In addition to the laboratory equipment, the remaining increase is for inflation and other program equipment purchases.

GRANTS-TO-STATES

Question: How many States currently operate their own programs?

Answer: Currently, 27 States maintain their meat and/or poultry inspection programs.

Question: Do you think that an increase in Grants-to-States will encourage their continued participation?

Answer: This increase will provide for rising State inspection costs based on an inflation factor of 4.9 percent. State participation has been stable over the past few years and no change is expected in the foreseeable future. We have no reason to believe that Federal contributions up to the maximum 50 percent of the total program costs are necessary to secure continued participation by these 27 States. These increases are intended to maintain that level of funding.

STATE INSPECTORS

Question: How many State inspectors are there working under a Talmadge-Aiken agreement; how many State-employed inspectors are there; and how do these compare percentage-wise to the number of Federal inspectors?

Answer: The State programs employ about 2,100 inspectors, approximately one-quarter the number of Federal inspectors. 187 State inspectors are working in federally approved plants under Talmadge-Aiken agreements.

IMPORT-EXPORT INCREASE

Question: You are requesting a 23 percent increase in staff-years and a 34 percent increase in funding for import-export inspection, yet you don't anticipate much change in the number of pounds to be inspected in import-export activity. I realize you want to strengthen the inspection program, but is this much of an increase necessary this year?

Answer: The requirement for a tightened import program results from the amendments to the Federal Meat Inspection Act in the 1981 Farm Bill, from GAO and USDA reviews of the program, and from the adulterated product incidents of 1981 and 1982.

More than 30 countries actively export to the U.S., each with its distinct set of laws, regulations, and practices. The Federal Meat Inspection Act requires that these programs be at least equal to the inspection program in the U.S. In order to verify and maintain records on the equivalence of these programs, FSIS would add five staff-years to the headquarters review unit and enlarge the capacity of its import data system. The field force requires a greater increase. Imported product inspection is widely dispersed in this country. About a dozen ports each handle three percent or more of import volume. There are more than 200 official import facilities. In order to carry out recently added responsibilities for product control, species sampling, document examination, and uniform supervision, the present port inspection staff should be increased by 29. Delays in bringing staffing up to the full level necessary to accomplish the requirements of the Farm Bill will only serve to continue our problems in this area.

LABORATORY SERVICES

Question: How do the Laboratory Services fit into the inspection process?

Answer: The Laboratory Services (Science) program supports meat and poultry inspection through the scientific examination of meat and poultry products for disease and chemical contamination or adulteration. The Science program furnishes analytical support and scientific guidance to the meat and poultry inspection program. Science support services are designed to assure that meat and poultry products are safe from disease, microorganisms that cause food poisoning, harmful chemicals, and toxins. Laboratory analysis also enables FSIS to detect insanitary preparation and economic adulteration (the substitution of cheaper or less desirable ingredients for those required).

Science cooperates with other Federal agencies (notably FDA, EPA, and the Centers for Disease Control) and with State and local health authorities in carrying out its responsibilities. It develops and maintains close ties with national and international scientific communities in order to keep abreast of scientific and technological advances and to open new avenues for the exchange of Scientific information.

PROGRAM INTEGRITY

Question: According to the explanatory notes, "FSIS is particularly susceptible to criminal activity and breakdowns in program integrity because of its large decentralized workforce with substantial delegation of authority." Please provide for the committee a chart and/or explanation of this hierarchy and how much authority each level has. Please also explain how your new efforts to strengthen integrity will affect this delegation of authority.

Answer: FSIS provides inspection services to more than 7,100 meat and poultry plants in the United States. Inplant inspection personnel are responsible for assuring that every stage of a plant's production process--from preoperative sanitation procedures to loading products for market--meets USDA meat and poultry regulations.

The inplant inspection personnel are supervised by a group of 203 circuit supervisors, each of whom regularly visit and supervise a select number of plants. Circuit supervisors are responsible for: exercising supervisory control for inplant inspection activities; identifying and reporting staffing needs and changes to the area office; reviewing new plants and recommending to the regional director whether a grant of inspection should be given; conducting reviews of State-inspected plants; certifying State inspectors' qualifications in States where USDA has a Federal-State cooperative agreement; and supervising employees.

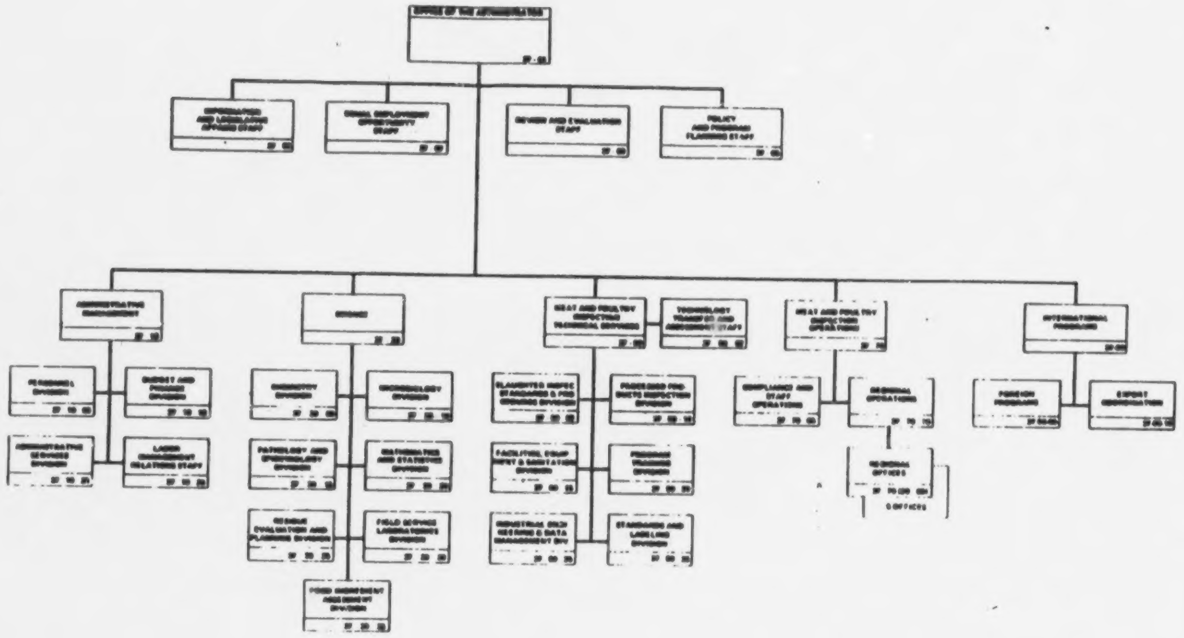
Each circuit supervisor reports to an area office which manages the inspection program within defined geographical boundaries. The area office staffs are responsible for: assuring uniformity in the implementation of policies and procedures; reviewing and evaluating program operations; supervising Federal/State cooperative activities; assigning inspection personnel on a day-to-day basis; and handling plant management appeals of inplant and circuit level decisions and actions.

The area offices report to five regional offices whose staffs are responsible for the following major activities: refusing, suspending, and recommending withdrawal of inspection service; directing and coordinating the activities of subordinate area offices which are responsible for the inspection program in one or more States; and negotiating and administering a regionwide agreement with regional officials of the American Federation of Government Employees union.

The Washington headquarters staff represents the top level of Meat and Poultry Inspection Operations. Its major responsibilities are to formulate policy and to provide professional, technical, and managerial leadership to the field.

The efforts to strengthen the program's integrity will alter neither the Agency field structure nor the delegation of authority. Under the new Intensified Regulatory Enforcement program, we will direct more supervision and more inspectors to chronic problem plants and we will have more frequent communication among groups of FSIS employees involved in the intensified inspection of these plants, but the lines of authority will remain as presently structured. A chart of the organizational structure of FSIS is provided for the record.

FOOD SAFETY AND INSPECTION SERVICE
ORGANIZATIONAL STRUCTURE


MEAT AND POULTRY INSPECTION TECHNICAL SERVICES
MEAT AND POULTRY INSPECTION OPERATIONS
COMPLIANCE AND STAFF OPERATIONS
STANDARDS AND LABELING DIVISION
FIELD SERVICE LABORATORIES DIVISION
5 OFFICES

Question: How do you plan to "promote high standards of employee conduct" in FSIS?

Answer: It is a major goal of FSIS to maintain the public's trust in the integrity of the inspection program and its confidence in the safety of the foods bearing the marks of inspection. To achieve this goal we must have a workforce of individuals whose conduct is fully deserving of the public's trust. A major element of our efforts to improve program integrity in 1985 will be a new training program to make our employees fully aware of their ethical responsibilities. A group of Agency employees will be selected to study a curriculum dealing with matters of ethical conduct. They will then take their message to the field, conducting seminars throughout the country to inform and remind employees of the standards expected of them and the behavior and practices which are prohibited.

While we believe that the promotion of employee integrity should be aimed at encouraging positive behavior, we recognize that our integrity efforts must also include disincentives to corruption and wrongdoing. The internal review program assesses the effectiveness of inspection at the plant level and identifies breakdowns in inspection controls, some of which may be due to integrity problems. Our experience shows that an active nationwide, independent review program promotes good management, provides early warning of developing problems, and discourages improper activities by employees.

LABORATORY SERVICES INCREASE

Question: You are requesting a $4.8 million increase for Laboratory Services, but no increase in staff-years. The bulk of this increase in funding is for the Residue Avoidance Program. Will you not need additional personnel to implement this program?

Answer: The $4.8 million increase requested for Laboratory Services includes $4.2 million to complete the implementation of the Residue Avoidance Program. Most of this amount is slated for methods development, particularly for work on multi-residue screening and new regulatory analytical methods; modernizing laboratory equipment; and increasing the samples analyzed for the presence of a larger number of illegal residues, consistent with the expanded capability of FSIS laboratories to examine tissues for a larger number of compounds. Most of the work is performed under contract so no increase is necessary in the Laboratory Services staff.

INCREASED OPERATING COSTS

Question: In your "Summary of Budget Changes by Activity" in the notes, you show that $1.7 million will be sent to States for increased operating costs. No other program comes close to that. Last year, you requested $4 million for the same purpose. Why have State operating costs risen so rapidly?

Answer: USDA's 50 percent share of the costs of operating State inspection programs includes salary increases for State inspection personnel as well as other costs. Therefore, the factor for increased operating costs of 4.9 percent is applied to the total State inspection costs whereas it is applied only to non-salary related goods and services in the Federal program.

AVIAN INFLUENZA

Question: Did FSIS take any part in the avian influenza control effort?

Answer: FSIS personnel, especially from the Northeastern and Southeastern regions, have worked closely with the Animal and Plant Health Inspection Service to control the recent outbreak of avian influenza. FSIS has coordinated the handling of birds for movement to slaughter within the quarantine zone, including the verification of receipt of acceptable birds, and has overseen the cleaning and disinfecting of vehicles bringing birds to slaughter. We also issued temporary grants of inspection to three exempt poultry slaughter plants within the zone to minimize the need for movement. To lesson the possibility of people serving as virus carriers, instructions were issued for FSIS personnel to minimize travel among the various slaughter facilities. Also Army Veterinary Service called several of our veterinarians to active duty to assist APHIS during the emergency.

Question: Is avian influenza something you test for before exporting poultry?

Answer: An antibody test used on live birds is applied on request when live chicks are exported. Generally, however, the USDA quarantine is the control measure. No live chickens may leave the quarantine area, and processed, cut-up poultry from the quarantine zones is exported only if the specifications of importing countries allow.

SODIUM LABELING

Question: Do you work with the Food and Drug Administration in food labeling supervision, especially sodium labeling?

Answer: FSIS and the Food and Drug Administration (FDA) work together to coordinate labeling policies. As you know, the FDA recently finalized its sodium labeling regulation which is very similar to the USDA policy. The principal differences are: that the FDA will require inclusion of sodium content information in nutrition labeling whereas USDA makes this information voluntary; and that USDA requires an approved quality control program to verify the accuracy of sodium label claims and FDA does not.

EMERGENCY RECALLS

Question: Do you work with them in emergency recalls of contaminated food?

Answer: FSIS and the FDA work closely together on recall cases of mutual concern. FSIS notifies the FDA of all meat and poultry product recalls. The FDA in turn notifies FSIS of all recalls which may affect meat and poultry products -- spices, nitrites, or mushrooms, for example. The FDA also has an electronic mail system through which they notify State and local authorities of FSIS recalls.

EXPORT COMPLAINTS

Question: Do you ever receive complaints from countries to which we export concerning your application of their inspection requirements and procedures?

Answer: FSIS is usually involved in 12 to 15 export complaint actions per year, ranging from difficulties over labeling or documentation to lawsuits for damages. Most serious complaints concern product which is off condition upon arrival at its destination.

CONSUMER INFORMATION

Question: What public information do you provide to assure safe handling of meat and poultry products by consumers.

Answer: Consumer education is a high priority of the Food Safety and Inspection Service. We realize that many cases of food poisoning occur due to mishandling of meat and poultry products by consumers. We are actively working to reduce these food poisoning cases through consumer education programs.

Our target audiences include everyone from children in elementary schools to the elderly. We make a special effort to reach Black and Hispanic consumers. At the core of our efforts are free publications that describe specific aspects of food safety. In fiscal year 1983, 632,849 copies of FSIS publications were distributed by the Agency, and 350,000 more by the Consumer Information Center in Pueblo, Colo. During the past few months, two of our major publications have been completely revised, resulting in more thorough, up-to-date information for the public. The publications, The Safe Food Book--Your Kitchen Guide and Talking About Turkey: How to Buy, Store, Thaw, Stuff, and Prepare Your Holiday Bird, will be off the press in July. A third major publication is now under revision; Safe Food to Go--A Guide to Packing Lunches, Picniking, and Cooking Out, will be available in early 1985.

Question: How is it disseminated?

Answer: FSIS works year-round to make the availability of these publications widely known. Producing public service announcements for radio and television, and working with the media, county extension agents, State and local health departments, consumer organizations, teachers, State and local offices on aging, and others, FSIS seeks to make consumers aware that free information is readily available.

In addition to distributing publications, FSIS also operates the Meat and Poultry Hotline, an answer and referral service for consumers with questions about the safety, wholesomeness, or labeling of meat and poultry products. In fiscal year 1983, the hotline received 2,000 calls and letters.

Because FSIS believes it is important to learn good food safety practices at an early age, it sponsors the National Food Safety Poster Contest. Teaching kits are sent to every public and private elementary school nationwide. Students learn food safety rules from their teachers, and then show what they have learned by making a poster. In 1984, 75,000 entries were received. Since the contest's beginning in 1981, the food safety message has reached more than a million children.

TOTAL QUALITY CONTROL

Question: What are your ultimate goals and projections for the Total Quality Control (TQC) program?

Answer: The TQC program represents a significant step toward modernization of processing inspection. It adheres to the four principles that FSIS has adopted as guidelines for future program changes.

The first principle is that public protection is the primary objective of meat and poultry inspection. We work to ensure that every TQC system is at least equal in effectiveness to the inspection procedures that it supersedes. In most cases the new procedures are superior to the previously used methods.

The second principle is that the allocation of inspection resources should be risk-based. To the extent allowable under current law, we are accomplishing this under TQC. Our staffing requirements for plants which qualify for participation in the TQC program are lower than the requirements for plants under traditional processing inspection. We have also proposed legislation for compliance-based processing inspection which would further advance the principle of risk-based allocation of inspection resources. There are many processors today, those with TQC systems included, who use sophisticated production equipment to produce safe products of consistent quality. They do not require daily inspection to assure product safety and wholesomeness.

TQC takes advantage of advanced technologies to promote industrial productivity and inspection program efficiency. This is our third guiding principle. Since World War II, the food production industry has seen rapid modernization, steady expansion, and increasing specialization. As the industry continues to progress scientifically and technologically, TQC gives USDA the means to adapt rapidly to those changes.

Finally, the fourth principle guiding the inspection program is that the responsibility for public protection should be shared by the government and the meat and poultry industry. Here also TQC has been a great success with much promise for the future. By and large, plants with TQC systems have reliably demonstrated their ability and willingness to produce safe foods. Many of the production controls they have developed to minimize costs or expand productivity--for example, temperature and product formulation devices--aid the inspection process. In the future, we hope that compliance-based inspection will enable us to expand this concept so that responsible processors receive only as much regulatory scrutiny as necessary.

Question: Do you plan to require TQC in the future?

Answer: Participation in the TQC program is entirely voluntary. USDA has no plans to require processors to develop TQC systems; however, we anticipate that qualified plants will continue to join the program as the benefit of reduced in-plant Federal presence and reduced overtime payments become known to them.

COMPLIANCE REVIEWS

Question: Why has the number of compliance reviews dropped by 20 percent over the last few years, especially in light of increased reported violations?

Answer: FSIS compliance officers investigate all reports of suspected violations of the meat and poultry inspection laws. These reports come from food inspectors in the plants, State and local authorities, competing firms, consumers, and from compliance officers in the course of their regular, systematic reviews. The increasing time spent investigating these reports has, in recent years, diverted compliance officers from conducting regular reviews.

Several extensive investigations during 1983 made it necessary to conduct fewer random reviews. For example, two major cases required over 2,300 hours of investigative staff time, in addition to travel time, time spent monitoring product disposition, and much clerical time. A great deal of compliance time was also spent on 18 incidents in which compliance personnel had to be involved in the tracking and controlling of meat products which had been refused entry into the United States and were not exported as required within the allotted time.

Question: Are you requesting increased funding for compliance reviews this year?

Answer: Yes, the $2,018,000 FSIS is requesting for strengthening the integrity of the inspection program will eable us to increase the number of compliance reviews by 50 percent; up from 39,909 in 1983 to 60,000 in 1985.

COMPLIANCE VIOLATION PROCEDURES

Question: Please explain the progression of a violation case from the time you hear of it until the time of conviction, including the role of the inspector General and the Justice Department.

Answer: FSIS compliance officers conduct random and scheduled reviews to check the effectiveness of the inspection system. When a compliance officer learns of a possible violation, either through his own work or reports from the in-plant inspection staff, local authorities, or other sources, he carries out a review of the involved firm or individual. He collects evidence--for example, product samples, photographs, statements, or labels--and writes a report of his findings. He may also take steps to control suspect product by ordering it detained.

The officer's report is sent to one of five field compliance offices where it is checked and then forwarded to Washington. The headquarters Complaince Division begins the process of deciding USDA's appropriate legal response to a violation. In minor cases, a warning letter is the usual response. USDA's General Counsel must concur with the proposed action in more serious cases or repeated violations where an injunction or prosecution is sought. If the General Counsel's office agrees that a case warrants prosecution, the file is forwarded to the Justice Department whose appropriate U.S. Attorney may decline to prosecute, may warn the establishment, or may prosecute with or without negotiations on a plea.

Occasionally there are indications that the discoveries of the field compliance officers point to more widespread and serious violations of the inspection laws which call for a more intensive investigation than FSIS personnel can carry out. In such cases, FSIS will call in the help of the Office of the Inspector General who will assemble whatever investigative team is necessary. Evidence gathered in such an investigation will be furnished directly to the U.S. Attorney for prosecution.

Convictions may lead to fines, probation, or prison sentences, after which the defendant has all the legal rights of appeal.

Under current law, the administrative procedure to withdraw inspection from an establishment by the Secretary's order can begin only after one felony or two food-related misdemeanor convictions. On request of FSIS' Compliance staff, the General Counsel's office will draw up against the respondent a complaint requesting withdrawal. The complaint, signed by the Administrator, is filed with USDA's hearing clerk and a copy sent to the respondent for reply. Hearings take place before an Administrative Law Judge, usually held locally, and both sides file briefs. The eventual decision of the Administrative Law Judge may be appealed by either side to the Department's Judicial Officer, but his decision may be appealed only by the respondent. Respondent's first appeal after the Judicial Officer is either to a District Court (in proceedings under the Federal Meat Inspection Act) or to to a Court of Appeals (under the Poultry Products Inspection Act). The Secretary's complaint calling for withdrawal of inspection may be for an indefinite time or for a stated period. The complaint often sets the stage for negotiations between USDA and the respondent, leading to a consent agreement with definite conditions laid upon the establishment. For example, USDA may withdraw inspection for less than the full period stated in the complaint, for example, for 30 days instead of two years, or the agreement may require that certain persons sever all financial and managerial connections with the involved establishment. Violation of the conditions leaves the establishment liable for imposition of withdrawal for the full period stated in the Secretary's complaint.

RESIDUE AVOIDANCE PROGRAM

Question: I am impressed with the Residue Avoidance Program's efforts to prevent meat and poultry contamination by working ahead of time with producers, rather than finding contamination after the fact and forcing destruction of the product. I am also impressed by FSIS' and the Extension Service's efforts to work not only with producers but also with drug and chemical manufacturers, feed mill operators, packers, State officials and others. Is there any indication how much money this will save producers?

Answer: Direct savings to the industry are impossible to document at this time. However, when residue avoidance programs are fully implemented and provide the producers with knowledge of how to avoid residues, losses from condemnations and recalls associated with residues should be only those associated with accident, human error, or intentional violation.

Question: Will it have an immediate effect, or will it take time to see measurable results?

Answer: The Residue Avoidance Program was not designed to show early results, but was designed as a three-year effort to provide Extension specialists, and through them producers, with the information they need to avoid residues. The program is now at the midpoint of its development and has accomplished several objectives. The State extension leaders know what information is available. The cooperation received from all industry segments has been excellent and a spirit of cooperation has developed. Residue awareness has improved throughout the industries due to Extension releases of data and information, and cooperation of the industries involved.

BUDGET FREEZE

Question: Please detail as much as practicable the effect a budget freeze at the FY 1984 level would have on your Agency?

Answer: Operation of the Agency at the FY 1984 budget level will require reductions in staff to meet the rising costs of goods and services provided by the private sector. This will reduce our in-plant staffing to a level inadequate to assure full inspection coverage. With the continued growth in the poultry slaughter and processing industries, further strains will be placed on the Agency's ability to monitor product in distribution channels and in industries allied to meat and poultry food processing. Constraints on travel and training will result in reduced supervision of inspectors and a rising risk of non-uniform and inequitable inspection practices.

BUDGET INCREASE PRIORITY

Question: Could you list the order of priority of your budget increase requests in case we cannot grant the full request?

Answer: The following is the Agency's budget request in priority order.

		($ Millions)
1.	Salary Annualization	4.2
2.	Inflation	3.7
3.	Slaughter Staffing	2.0
4.	Residue Control Program	4.8
5.	Program Integrity	2.0
6.	Import Monitoring	1.8

FIELD OFFICE STRUCTURE

Question: What is the current status of your field office structure?

Answer: The current field office structure consists of five regional offices located in Philadelphia, Atlanta, Des Moines, Dallas and Alameda and 26 area and two sub-area offices.

Question: Have you completed your studies on the effects and cost/benefit of making any changes? If so, what were your conclusions?

Answer: We are continuing to review our organizational structure to assure ourselves that our field offices are able to provide both effective and efficient management of our programs. We are not, at this point in time, proposing any changes.

Question: Does the budget request assume any changes in the field office structure? If so, what changes and how much in savings are you assuming?

Answer: The budget request assumes no change in the field office structure.

ENFORCEMENT AUTHORITY

Question: I understand that FSIS has now submitted to the authorizing committee proposed legislation to increase the Department's enforcement powers in meat and poultry inspection cases. I also understand that OMB has eliminated a part of the Department's proposal which would grant USDA the authority to close a plant, based on a pattern of repeated regulatory violations, before going through the formal administrative hearing and appeal process. How long is the average appeal process?

Answer: Under the Federal Meat Inspection Act, once a recipient of inspection service has received a hearing before an administrative law judge based on a complaint to refuse to provide or withdraw inspection service, he or she may appeal that decision to the Department's judicial officer. Any appeal of the Judicial Officer's decision goes to the District Court (to the Court of Appeals under the Poultry Product Inspection Act) and then on to the Court of Appeals. Each step of the appeal process takes about a year, but in some cases, retrials are ordered, which further prolongs the process. USDA has been dealing with one case for over six years.

With respect to OMB's review of the draft legislation, OMB did not eliminate any key features of the legislative proposal.

Question: What type of penalty is usually appealed -- fines or administrative restrictions, or other?

Answer: Felony convictions, whether the penalty is a fine, prison term and/or probation, are often appealed, because under the inspection acts a felony conviction sets the stage for USDA to begin a withdrawal proceeding. Withdrawal orders are almost always appealed.

Question: Do you have an estimate as to how much an appeal costs the Department?

Answer: The scope of appeals varies so greatly that an estimate covering all of them would be misleading. Some appeals to the judicial officer require only the filing of a short brief. But criminal appeals can go through three court levels, involve retrials and further appeals, and finally appeals in the administrative withdrawal process both within USDA and in the courts. USDA has been dealing with one often-appealed case for over six years.

Question: Under the proposal as approved by OMB, will FSIS be restricted in any way toward further administrative actions while a case is pending?

Answer: OMB did not call for removal of any of USDA's administrative sanctions in their review of the legislative proposal. In fact, the draft bill strengthens the Secretary's administrative sanctions while a case is pending by allowing him to refuse inspection in cases where the public health would be endangered.

NATIONAL ACADEMY OF SCIENCES STUDY

Question: Who is conducting the independent review of your inspection system?

Answer: In November, 1983, USDA awarded a contract to the National Academy of Sciences for an independent review of the inspection system.

Question: How much will it cost?

Answer: The contract period runs 18 months and will cost $480,000.

OTHER IMPORT/EXPORT INSPECTION

Question: Who conducts food safety inspections for imports and exports of food than other meat and poultry?

Answer: In the Department of Agriculture, the Egg Products Inspection program of the Agricultural Marketing Service inspects imported and exported egg products. The Food and Drug Administration is responsible for food safety inspection for products other than imported and exported meat, poultry, and egg products.

CATTLE KING

Question: What is the current status of the case against Cattle King Packing Company for the processing of adulterated meat for the School Lunch Program?

Answer: On September 20, 1983, USDA halted distribution of all ground beef intended for use in the School Lunch Program that was processed by Cattle King and Nebraska Beef Processors, an affiliated plant in Gering, Nebraska. The action was prompted by reports that the ground beef may have come from uninspected cattle and may have been processed under insanitary conditions. Also, on September 20, USDA's Office of Inspector General, in cooperation with the Justice Department, launched an intensive criminal investigation into the allegations. All suspect product was withheld from the food chain, and on September 21 the two firms were suspended from bidding in the Federal procurement program. The two companies have challenged the suspension in U.S. District Court.

Since December, USDA has determined that beef processed by Cattle King for the School Lunch Program before September 22, 1983, is adulterated and may not be used for human food. The Department is seeking a refund of nearly $28 million from Cattle King for about 26 million pounds of ground beef. Approximately 11.1 million pounds of Cattle King ground beef product, of which 5.1 million pounds was produced prior to September 22, is being held in storage by USDA until completion of our investigation. Cattle King has contested USDA actions in the U.S. Claims Court.

On the inspection side, on December 2, 1983, we issued a complaint to withdraw inspection from Cattle King, Stanko Packing Company of Gering, Nebraska (which also does business as Nebraska Beef Processors), and Nebraska Beef Packers of Gordon, Nebraska. The action was based on evidence that Cattle King had illegally processed and distributed adulerated meat products by processing cattle that had died other than by slaughter, and thus had violated a consent decree linked to previous convictions. A hearing on the complaint was held April 3-6 before an Administrative Law Judge. During the hearing, we asked the Judge to order immediate withdrawal of inspection from all three Stanko-affiliated plants, but our request was denied. A ruling is expected this summer. Cattle King ended slaughter operations in late 1983, but continued processing on a limited scale until February 17, when inspection was withdrawn at the company's request. The plant has remained closed since then.

In the criminal case, in the early part of this year, three former Cattle King employees pleaded guilty in Federal court in Denver to charges involving meat inspection and Government procurement. On April 6, a Federal grand jury in Denver indicted the Cattle King Company and six of its employees on various criminal charges. Rudolph B. "Butch" Stanko and his cousin, Henry L. Stanko, Jr., were among those indicted. The charges include mail fraud; the selling of adulterated and misbranded meat food products; and conspiracy to violate various sections of the Federal Meat Inspection Act. Trial is scheduled for July. On the basis of the May 4 indictments, Butch and Henry Stanko were suspended from participating in Government procurement.

Question: I understand that the Cattle King plant supervisor alleged that USDA inspectors helped him cover up evidence of unhealthy conditions at the firm's plant. What was your response to this charge?

Answer: The U.S. Attorney has taken no action against any FSIS inspector. However, two USDA meat graders, who are not part of the inspection program, have been indicted in the case; their trial is scheduled for June.

RESIDUE PROGRAM

Question: In a 1979 report, "Problems in Preventing the Marketing of Raw Meat and Poultry Containing Potentially Harmful Residues," (HRD-79-10, April 17, 1979), and a 1983 staff study "Monitoring and Enforcing Food Safety--An Overview of Past Studies" (GAO/RCED-83-153, Sept. 9, 1983), GAO found that the Food Safety Inspection service (FSIS) did not have good information about what excessive residues of animal drugs, pesticides, and environmental contaminants were occurring in the U.S. meat and poultry supply, because of problems in its residue sampling programs. Has FSIS been successful in expanding its residue monitoring program to include at least periodic sampling for all the substances of concern in the U.S. meat and poultry supply?

Answer: The Food Safety and Inspection Service has been aided in the last two years in expanding its residue monitoring program by the use of new and improved analytical methods developed by the Agency. The new procedures have increased the diversity of the program. There still are compounds for which we have concern and do not have adequate analytical methods, however, they are of less importance when conditions of use and probability of exposure are considered.

The problem of environmental contaminants and unreliable data in prior approvals which can affect our conclusions will be with us for several more years.

A copy of a reference book that for the first time lists drugs and chemicals that may be found in meat and poultry, ranking those compounds according to actual or probable use, potential misuse, and toxicity, will be provided for your information.

[CLERK'S NOTE.—The book "Compound Evaluation and Analytical Capability" has been retained in the subcommittee's files.]

Question: Have efforts to strengthen residue detection and enforcement been effective in precluding repeated violations by meat and poultry producers?

Answer: Repeat violations are not a major concern. Data from our follow-up program is supported by Extension Service questionnaires and once a producer is aware that his management practices are creating a residue in the meat supply, corrections are made. For example, of 1,800 calf producers with violations, only 18 have been repeat violators.

Question: Has FSIS been successful in obtaining accurate and complete information about residue sampling results from inspector-originated residue samples?

Answer: Yes, although when an inspector has to retain animals or carcasses because of a physical observation, there are always 24-48 hours of fact gathering in which conflicting reports may be given the inspector by the packer or producer. This initial time of confusion is normal because plant management is asked for information which is not usually requested, and normal business practices are disrupted.

Question: Does the FSIS national residue monitoring program accurately detect national residue incidence and trends with adequate statistical validity and reliability?

Answer: Experience has shown that this data is accurate within the bounds of statistical confidence limits on a national scale. Statisticians are re-examining our current program designs to determine whether any further improvements can be made in the current program, and designing programs which will allow us to sample specific geographic areas and/or use screening test technology to more accurately identify problem areas. We anticipate that any such changes will be of a subtle nature and can be incorporated into the ongoing program as violation rates become known.

ECONOMIC RESEARCH SERVICE

STATEMENT OF JOHN E. LEE, JR., ADMINISTRATOR

Mission of ERS

The Economic Research Service's (ERS) program of research, analysis, forecasting, and data collection provides economic information for improving the efficiency of the U.S. agriculture and food system and for developing and administering agricultural and rural policies and programs.

Accomplishments in 1983

- ERS staff responded to over 60,000 requests for economic information and published 14,471 printed pages of economic analysis and research in 1983. That does not include unpublished staff reports that were used to address specific policy questions. As part of our program to assess the current economic situation and outlook for the farm sector, we monitored economic activity, made short term forecasts of key economic indicators, and developed long range projections of U.S. and world agricultural production, demand for production resources (land, water, and manufactured inputs), and demand for agricultural commodities and food products. As part of our research program, we studied the organization and institutions of the agricultural and food system, the use and conservation of natural resources, and the impacts of alternative public and private actions on farmers, other rural residents, natural resources, and U.S. society in general.

For example, we analyzed several key public policy issues in 1983. Those are detailed in the Explanatory Notes that you have before you, but allow me to mention a few. We assessed the Federal Government's dairy program and the costs and benefits of alternative programs. We also, in conjunction with ASCS, assessed the PIK program; and, we analyzed the decline in agricultural exports, the U.S.-EC trade conflict, and the U.S.-U.S.S.R. grain agreement.

Economic information produced by ERS was made widely available to farmers, farm organizations, farm suppliers, marketers, processors, consumers, and others who make production, marketing, and purchasing decisions, and to you and other public officials at the Federal, State, and local levels through research monographs, outlook periodicals, staff reports, professional and trade journals, radio, television, newspapers, and direct computer access.

1984 Program Changes

This year we are implementing several initiatives in our research and data collection programs. We are phasing out river basin studies that we did for the Soil Conservation Service (SCS), and redirecting staff to a new, broad, national program of research on the economics of soil and water conservation. In support of that redirection of staff, we are collecting new data this year on farmers' conservation practices and on economic factors that affect farmers' participation in Government conservation programs and farmers' investments in soil and water conservation practices.

In addition, an expanded survey on farmland values is being inaugurated this year with new funds appropriated to ERS. This survey of farmers and ranchers will improve public information on farmland prices with State-level reliability. Since farmland accounts for three-fourths of farm assets, these data are critical for assessing the economic condition of the farm sector. Also, the State-level reliability of our costs of production and farm expenditures surveys are being maintained this year as a result of additional funds appropriated for that purpose.

Changes Proposed for 1985

We propose a $47.5 million budget for 1985, a $3.2 million increase from 1984. Of that increase, $1.4 million would be for a new program of research on agriculture as it relates to the macroeconomy. The remainder would be to cover increases in operating costs and pay raises.

It has become increasingly apparent that the financial well-being of the farm sector is tied to the state of the general U.S. and world economies. Macroeconomic factors could even eclipse the importance to agriculture of farm policies and natural phenomena. Consider, for example, the recent impacts on agriculture of inflation, high interest rates, and appreciation of the U.S. dollar vis-a-vis foreign currencies. Our proposed research program on agriculture as it relates to the macroeconomy would address that important relationship through data acquisition, monitoring, and analysis.

Some specific activities would be:

- Analysis of the interactions between monetary and fiscal policies, interest rates, GNP, unemployment, and other indicators of economic activity.
- Research into the interactions between international capital flows and exchange rates.
- Analysis of the impacts on the agricultural sector compared to other sectors of the economy of changes in macroeconomic policies and conditions.
- Construction of leading, coincidental, and lagging indicators of the agricultural sector's response to changes in the general U.S. and world economies.
- Enhancement of secondary data acquisition to support this research program.

These activities would be aimed at providing the public and policymakers with a better understanding of the interrelationship between agriculture and the macroeconomy, its importance, and the consequences of policy alternatives.

Concluding Remarks

ERS is an institution with unique opportunities and tremendous potential. Because American agriculture is in a critical stage in its evolution, the benefits to society of informed public policy decisionmaking based on objective analyses of alternative policies and on reliable economic information have never been greater.

We in ERS are committed to carrying out our responsibility to provide those analyses and information and to put the issues into a balanced, national perspective.

Thank you again for the opportunity to present our 1985 budget request to this Committee. I will be pleased to answer any questions.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

RESEARCH WITH INSTITUTIONS

Question: Please provide for the Committee a breakdown of research you do cooperatively with other publicly funded research institutions. Please include percentages of ERS time spent on projects with these institutions, and how much of the financial obligations they share.

Answer: A breakdown of ERS work with publicly funded research institutions is shown in the following table.

FY 1984 ERS Program with Research Institutions

	No. of Agreements	No. of Institution	Total ERS Funds Transferred to Institutions
Domestic Agriculture	16	12	$267,000
International Trade	14	9	206,000
Production Resources	15	12	185,000
Rural America	1	1	6,000
Total	46	34	$664,000

Amount of time spent by ERS staff on each of these projects varies considerably. In total ERS spends about 10 percent of its staff-years working with university personnel on joint projects. The share of university costs covered by ERS also varies considerably. We do not currently have the data necessary to provide a precise answer on total project costs at the universities. We are implementing a procedure which will provide this information in the future.

POLICY RESEARCH

Question: Does ERS ever offer policy suggestions, or do you simply provide research for policy makers?

Answer: ERS does not make policy suggestions. It is important that USDA have a source of credible and objective economic analysis in order that policy makers can make decisions in light of the best available information, whether or not the ultimate decisions are predicated totally on economic benefits and costs. We do not, therefore, make policy recommendations or suggestions; we analyze the consequences of alternative policies and programs in terms of economic benefits and costs and their distribution.

OTHER SERVICES INCREASES

Question: You are requesting almost a $2 million increase in "Other Services" over the FY 1984 level, which was a $1.5 million increase over FY 1983? Could you explain these rapid increases?

Answer: In FY 1984, Congress approved an increase of $1.5 million over FY 1983 for natural resources, farmland values and cost of production surveys. These surveys appear in the Other Services object class because they are performed principally through contracts with other Federal agencies.

The $1.9 million request over the FY 1984 level in other services includes $0.6 million for ERS research agreements under the proposed research program on agriculture and the macroeconomy. The balance is related to increased ADP costs and an increase in university salary rates.

ERS RELOCATION COSTS

Question: You are also requesting bill language allowing last year's "onetime" appropriation for moving costs to remain available until expended because you have yet to move. Will the $545,000 previously appropriated now be enough money for the move?

Answer: We do not yet know where we are moving. Because of this uncertainty the exact cost of the move cannot be determined at this time. However, we hope that $545,000 will be enough.

STATUS OF ERS RELOCATION

Question: Has there been any progress in locating available space for you?

Answer: We think we have an agreement with GSA on the delineated area and are waiting for GSA to locate a building within this area.

1985 BUDGET REQUEST

Question: Your budget request is an 8% increase over the FY 1984 appropriated level. Especially, since you specialize in economic analysis, you know how constrained the budget is this year. How can you ask for such an increase while other agencies, especially in USDA, are cutting back or are at least asking for level funding?

Answer: We share the concerns of the Administration and Congress over the Federal budget deficit and are willing to do our part in reducing that deficit. We sincerely feel, however, that it would be pennywise and dollar foolish to reduce the amount of economic information available to policy makers and Congress at a time when decisions on public policies and programs are especially critical; that is, at a time when difficult trade-offs must be made and when it is especially important to choose those policies and programs that are most cost-effective and have the biggest payoffs in terms of increasing the well-being of U.S. agriculture and U.S. society as a whole. The increases that we have requested are, for the most part, to catch up with the increased costs of doing business, both in salaries and other operating costs. We have asked you to fund only one new program of economic analysis and research that we feel is of critical importance to U.S. agriculture; that is, the impacts on U.S. agriculture of actions or events in the general U.S. and world economies.

ADDITIONAL STAFF-YEARS

Question: What will ERS do with the 20 additional staff-years you are requesting?

Answer: We are not requesting any additional staff-years in 1985. In fact, we are proposing to operate with a staff-year ceiling of 942 which is 8 staff-years under our 1984 ceiling.

OPERATING COSTS

Question: How has absorbing increased operating costs affected your performance of your duties? How would a budget freeze at the FY 1984 level affect your performance in FY 1985?

Answer: We believe we have achieved all the feasible management consolidations and operating efficiencies. Beyond these efficiencies we have attempted to absorb increased operating costs in two ways: (1) by operating under our staff-year ceiling, and (2) by curtailing the amount of program support we provide to our staff. Neither is an efficient or effective means of accomplishing our mission. In the first case, we are simply less able to cover the areas for which we have responsibility and less able to provide indepth analyses. In the latter case, we are not managing resources well if we do not provide adequate program support for our existing staff.

MACROECONOMY PROJECT

Question: I am sure that studying agriculture's relationship to the macroeconomy is very important, but why have you chosen this year to start a brand new project?

Answer: The effects of the 1981-83 world recession and the rising value of the dollar highlighted the critical relationships which exist between American agriculture and the key global commodity and financial markets. Agriculture's concern with international monetary and financial conditions focuses on the recent decline in U.S. agricultural exports and market shares resulting from the high value of the U.S. dollar relative to other currencies, high indebtedness of importing nations, relatively high interest rates, and highly fluctuating exchange rates.

ERS recognized in its program planning for FY 1984 the need to strengthen its capacity to monitor and analyze these international financial and monetary interrelationships. We redirected an additional $1.0 million of program funds in FY 1984 from other high-priority activities to begin building this technical capacity. However, these resources are not sufficient to adequately address the problems being created for agriculture by the highly volatile world economic conditions. Thus, the FY 1985 macroeconomy initiative is requested to provide the additional resources needed to adequately fill this critical gap in our capacity to serve American agriculture.

DATA COLLECTION

Question: When you collect data on other countries, including data for the purpose of comparisons with U.S. farmers, how do you collect that? Do we have an information exchange program, or do you get your information from satellites?

Answer: ERS has no formal, primary data collection activity for collecting data and information on other countries. Our international data collection is generally from secondary sources which include reports from the Foreign Agricultural Services' Agricultural Attaches and Agricultural Counselor offices and from statistical publications of the national governments. Additional information and data are collected from international organizations. ERS, itself, has no formal information exchange program. However, within ERS, the International Economics Division has informal arrangements with international organizations and with universities or government institutions in other countries for the exchange of data and information. ERS, in carrying out its analysis and forecasting duties makes use of secondary information and data from weather monitoring facilities and from satellites. However, ERS does not fund the collection of primary data from weather services or satellite networks.

DELAY OF MACROECONOMIC STUDY

Question: If the requested increase in your appropriation is not granted, will you delay your macroeconomic study, or will you fund that study from other agency resources?

Answer: The purpose of the request for FY 1985 funds is to supplement existing resources and strengthen ERS's capacity to provide highly technical information on how American agriculture is affected by changing monetary and financial conditions around the world. We have already taken steps to enhance our capacity to work on several key macroeconomic issues by redirecting $1.0 million of FY 1984 funds from other high priority projects. If the FY 1985 request for appropriations for the macroeconomic initiative is not granted, work in this area will proceed at the relatively low rate made possible by the redirected funds. The level of activity would be limited primarily to monitoring world macroeconomic conditions with limited analysis of the effects of changing international macroeconomic conditions on U.S. agricultural exports. Presently available resources are grossly inadequate to conduct research to provide an adequate understanding of how the factors such as exchange rates, foreign debt, and interest rates operate to influence demand for U.S. agricultural exports. The resources requested for FY 1985 will provide this research capacity and, over time, the ability to quantitatively estimate the impacts of foreign macroeconomic changes on the competitiveness of U.S. farm products in world markets and thus on volume and value of exports.

MACROECONOMY STUDY RESULTS

Question: Assuming the increase is approved, how soon will you begin the macroeconomic study, and how much time will there be before any results are obtained?

Answer: ERS is currently monitoring international macroeconomic conditions and developing relevant data bases and has initiated analyses of effects of changes in these conditions on U.S. exports. Preliminary results are available on the effects of varying exchange rates and the growing LDC debt problems. These efforts, conducted primarily with redirected resources, will provide a basis for rapid startup of more extensive, indepth research, assuming the increase is approved. Given this basis and the ability to recruit additional staff, initial results from the proposed new efforts are expected during FY 1985. Of course, it is anticipated that this expanded program emphasis will be a continuing one and that the importance of macroeconomic conditions in determining the competitiveness of U.S. agricultural products in world markets is likely to increase. Some of the research required to understand the fundamental structural relationships between trade and macroeconomic conditions will require more time to produce results.

PIK PROGRAM

Question: Did the ERS assessment of the PIK program conclude that PIK was an economically successful program?

Answer: The ERS assessment concluded that PIK was economically successful when measured against its stated objectives. The PIK program was initiated because of serious and worsening farm surpluses. Weak domestic demand, declining exports, and record-large 1981 and 1982 harvests had increased stocks, lowered commodity prices, depressed farm income, and boosted government expenditures. In exchange for idling cropland, PIK participants received as compensation commodities that were either owned by the Commodity Credit Corporation (CCC) or were under regular or extended farmer-owned reserve (FOR) loans.

Disbursing the surplus commodities that were owned by the Government or were under CCC loan through PIK served two purposes. The flow of commodities into market channels for final use by processors, feeders, or exporters was not interrupted even though between 70 and 80 million acres of cropland were idled. The surplus stocks became available to the market as if they had been produced on the idle land. Even with the severe drought, ending stocks for 1983/84, though significantly reduced, remain adequate. The second purpose served was to relieve the Government of the cost of maintaining the surplus stocks inventory as there was a savings of storage, interest, and the loss from deterioration of quality of stored commodities. Further, except for wheat, large quantities of stored stocks no longer exist to depress markets in the longer run.

Production and stocks of the five PIK crops were reduced from what they would have been without PIK. Winter wheat yields were abnormally high because of ideal growing conditions, while corn, sorghum, and cotton yields were significantly reduced by severe drought. As a result, PIK was required for a second year in the case of wheat, while 1983 PIK and drought solved the surplus problem for the other crops. At the time PIK was being planned, it was anticipated that PIK would be needed for two years.

The PIK program improved the cash income and financial position of the farm sector in 1983, and paved the way for further improvement in 1984. As a result of PIK, cash expenses were reduced by $8 billion to $10 billion dollars and outstanding farm debt was reduced. This was a significant benefit to producers who were facing the squeeze of increasing debt and high interest rates. Overall, the financial structure for the majority of farmers was stabilized, laying the groundwork for a healthier farm economy that will be producing nearer full capacity in 1984. The PIK program was especially effective for participants in areas where the drought was severe because they received 80 to 95 percent of their normal production without incurring production expenses.

The effect on Government outlays has to be focused on the next few years. It means a comparison of what the situation would have been if stocks would not have been reduced by PIK in 1983 with the situation which will now unfold without surpluses, except for wheat, which requires another year of PIK as a result of 1983's unprecedented yields. Over the next few years there will be savings from reduced deficiency payments, less need for cash land diversion, reduced storage payments, reduced interest on loans and CCC inventories, and reduced losses from quality deterioration of stored commodities. Looking at fiscal years 1983, 1984, and 1985 and comparing the current evolving situation with what could have been the situation without PIK and drought, the Department can show a reduction in CCC outlays connected with the five PIK commodities of $12.6 billion.

AGRICULTURAL EXPORTS

Question: What factors have the most dominant effect on agricultural exports? How much do they benefit or hinder exports, dollarwise?

Answer: The stronger dollar and the foreign indebtedness problem are the only two factors found to have a negative influence on trade in all the commodities. U.S. export sales over the two-year period 1980/81-1982/83 are estimated to have been about $6 billion less due to a stronger dollar and more than $2 billion less due to international debt/credit problems. Increased foreign wheat production was a major factor in reducing U.S. wheat exports during the 1980/81-1982/83 period while the downturn in foreign coarse grain production helped limit the decline in U.S. coarse grain exports.

Foreign use of subsidies and restrictive trading practices has increased recently. We have no firm figures on the total cost to U.S. farm exports over the last few years of competitors' use of subsidies, but some studies suggest that, for example, if the European Community's Common Agricultural Policy were not in place, U.S. farm exports would have been $4-7 billion per year higher in the early 1980's.

U.S. loan rates provide a floor price not only for U.S. producers but for the world market as well. When the market clearing price is below the loan rate, the loan operates as an export tax because it artificially raises the world market price. Our analysis suggests that the world market price for wheat would have been at least 5 percent lower in 1982/83, for example, if the U.S. loan rate had not been in effect. Such a differential may have reduced U.S. wheat exports as much as 8-10 percent.

FARMLAND VALUES

Question: Do you anticipate that farmland values will continue to fall? For how long?

Answer: We believe that the major adjustments in land values have taken place, although there could continue to be further modest declines in response to stress in local areas. The decline in land values that began in 1981 continued into 1984. In the peak year of 1981, the index of land values was 158 (1977=100) for the United States. A continuous decline in the index has occurred since 1981: 1982 to 157, 1983 to 148, and 1984 to 146.

In our March survey of the farm land market, respondents in some areas indicated that there are many farms for sale but few buyers at the asking prices. Similar statements have come from surveys by the Federal Reserve Banks. Distress sales have increased in the past year. Also, interest rates are increasing, making land sales more costly to finance and land less attractive to nonfarm investors.

ERS INFORMATION

Question: In your statement, you say that ERS staff responded to over 60,000 requests for economic information in 1983. In what form do these requests usually come?

Answer: The 60,000 requests for economic information in 1983 came in the form of letters and telephone inquiries. Not included in those 60,000 requests are the staff analyses that we do for Congress and policy officials in USDA. Many of the 60,000 requests are letters to you or the President that are referred to the Secretary of Agriculture and answered by ERS.

Question: How is ERS information disseminated?

Answer: ERS information is disseminated by every media means that are available and cost-effective. At the conclusion of all research projects, reports are routinely prepared and released publicly, and are put on sale through the Government Printing Office and/or the National Technical Information Service, both of whom also make the reports available on microfiche. Outlook and situation analyses are released through a series of agency periodicals which are also available through GPO and electronically for users with terminals. Press releases on each of these reports are issued to the trade and general print media, the wire services, and the computer service outlets. Popularized articles and features are prepared, based on the source reports, for issuance to paid subscribers of other ERS periodicals and to broadcasters for mass information dissemination. In addition, ERS routinely reports its work through speeches, professional journals, and exhibits at professional meetings.

CONSERVATION ANALYSIS

Question: Are you pleased with your change in conservation emphasis from river basin studies to general conservation analysis?

Answer: Yes, we are. FY 1984 is a year of transition. This transition has proceeded very smoothly, with good SCS-ERS cooperation. New resources in 1984 have allowed us to increase our data collection activities and our research in the soil and water conservation areas. We now have greater capacity to evaluate national soil and water program options, measure the benefits and costs of conservation programs, support the Resource Conservation Act process, and exploit the promising results of our soil erosion modeling joint activity with ARS and SCS.

ILLEGAL ALIENS

Question: Do you have an estimate of how much illegal aliens take away from the U.S. economy, specifically, the U.S. labor force?

Answer: We cannot determine how much they take away from the U.S. economy because we do not have a precise estimate of the number of illegal aliens employed in the United States. Information about illegal aliens employed in the United States, including those employed in agriculture, must be pieced together from unverified evidence, including personal testimony of employers, workers, and from case studies. These sources do not provide good estimates of the number of employed illegal aliens. In 1982, over 200,000 undocumented aliens working in the United States were arrested by the Immigration and Naturalization Service. About half of these were arrested while working in agriculture. However, the true number employed is thought to be considerably greater than this figure.

FARM POPULATION

Question: Please provide a summary of your December 1983 report on U.S. farm population?

Answer: There were 5,620,000 persons living on farms in rural areas of the United States in 1982. About 1 person out of every 41, or 2.4 percent of the Nation's total population, had a farm residence. The 1982 estimate of farm population is 170,000 below the 1981 estimate and 431,000 below 1980.

Farm residents are still more likely to be employed in agriculture than in nonagricultural industries, but farm residents no longer represent a majority of total agricultural employment. Only 46 percent of the average 3.5 million persons employed in agriculture lived on farms in 1982. The remaining 54 percent lived in nonfarm areas. A large majority of working farm women now work primarily off the farm.

The median income of farm families continues to be substantially lower than that for nonfarm families. In 1981, the median income of farm and nonfarm families was $17,082 and $22,554, respectively. Farm families are also more likely to be in poverty than are nonfarm families. About one-fifth of farm families, but only one-tenth of nonfarm families, were below the poverty level in 1981.

METRO AND NONMETRO UNEMPLOYMENT RATES

Question: How has the average annual unemployment rate for nonmetro areas compared to metro areas the last 3 years? What do you see for the next few years?

Answer: Nonmetro annual average unemployment rates were higher than metro rates in each of the last three years. Nonmetro unemployment rates were 7.9, 10.1, and 10.1 percent in 1981, 1982, and 1983, respectively. Corresponding metro rates were 7.5, 9.5, and 9.4 percent.

Analysts disagree on the expected U.S. unemployment rates in the next few years, but there are no reasons at this time to expect that the relationship between metro and nonmetro unemployment rates will change.

GAO RECOMMENDATIONS

Question: In a January 31, 1983 report entitled "Agricultural Economics Research and Analysis Needs Mission Clarification" (GAO/RCED-83-89), GAO commented on the importance of agricultural economics research and analysis in providing the data which serve as the basis for formulating food and agricultural policy and programs, and recommended that the Secretary of Agriculture, in cooperation with the State land-grant institutions, clarify the Federal role and provide leadership in planning and coordinating agricultural research and analysis. a) What has the Department done in response to these recommendations?

Answer: ERS has several initiatives underway which relate to the recommendations in the GAO Report. These initiatives involve planning and coordination of social science agricultural research and analyses within the Department of Agriculture and the State Agricultural Experiment Stations. The ERS role, as a Federal social science agency within the Department of Agriculture, is one of being a participant in the total Federal-State system of agricultural research; ERS does not have an overall administrative responsibility for agricultural social science work in the system. ERS coordinates its work and cooperates with other research institutions. ERS, by virtue of its responsibility for policy research and analyses at the Departmental and Federal level, does have insights on policy research needs and priorities, which it shares with other research institutions. ERS does exercise leadership in encouraging other research and data gathering agencies to undertake contributing work. Recent initiatives and ongoing activities of ERS to exercise this leadership function are:

- o Participation in the Joint Council on Food and Agricultural Sciences as a member and participant on committees and regional councils to reflect the research and data needs useful for formulating food and agricultural policies and programs.

- o Involvement in functions of the Regional Experiment Station Directors' Associations, including their research committees and the overall Experiment Station Committee on Policy (ESCOP). Social science research needs, as viewed by ERS, are reflected in these meetings. In addition, ERS staff participates in cooperative studies of mutual interest that reflect priority policy research needs.

- Representation as a member of the four Regional Department Heads Committees on agricultural economics and rural sociology; in addition, ERS actively participates on the Boards of the four Rural Development Centers. ERS discusses national research priorities at these meetings; opportunities for cooperative work also are pursued.
- Sponsorship of symposia, conferences, and related endeavors to aid understanding of policy issues and identify priority research; recent examples of ERS initiatives are the Trade Policy Consortium and the Natural Resource Policy Symposium.

Question: b) In your opinion, is funding for agricultural economics research and analysis adequate for the Department to fulfill its responsibility in this area? How would additional funds be used?

Answer: Existing funds for agricultural economics research generally are adequate for the Department to make significant contributions in the food and agricultural policy research areas. In some instances, additional funding may be justified in the future and would be reflected in the President's budget, particularly to maintain the strength of the existing program in real terms.

STATISTICAL REPORTING SERVICE

STATEMENT OF WILLIAM E. KIBLER, ADMINISTRATOR

Mr. Chairman and members of the Committee, it is again an honor for me to represent the Statistical Reporting Service (SRS) before this distinguished Committee. The strong support you have given to the Department of Agriculture's agricultural statistics program in the past is recognized. It is a privilege to present to you the SRS fiscal year 1985 Budget.

The USDA's program of developing and releasing national and State agricultural statistics has been delegated to the SRS. Research activities to improve these statistical data series are also conducted. In addition, SRS conducts survey work for other Federal, State, and private agencies.

The data series developed by SRS are critical inputs in the development of production and marketing decisions by the Nation's farmers, ranchers, and other agribusinesses. The agricultural data are also very essential in the formulation of legislation, agricultural commodity programs, and related activities.

Fiscal Year 1985 Budget Request

The fiscal year 1985 budget request is $57,534,000. This request includes an increase of $750,000 to initiate a program of probability based procedures for the three largest crop acreage surveys each year. Other budget changes include an increase of $782,000 for pay costs, $1,695,000 for increased operating costs, and a decrease of $123,000 for administrative support activity efficiencies and a phased reduction of positions in grades GS/GM 11-15.

Major Activities of the Statistical Reporting Service (SRS)

The principal activities of the SRS are the collection, summarization, and analyses of data and the timely release of accurate and reliable estimates concerning agriculture. During each year, the SRS Crop Reporting Board releases about 300 Federal reports concerning 120 crops and 45 livestock items.

The production and marketing data that are developed and released by the SRS include: number of farms and land in farms; acreage, yield, production, and stocks of grains, hay, oilseeds, cotton, tobacco, fruits, vegetables, and specialty crops; inventories and production of hogs, cattle, sheep, goats, wool, catfish, poultry, eggs, and dairy products; prices received by farmers for products, prices paid for commodities and services, and related indexes; cold storage supplies, and related areas of the agricultural economy.

The reinstatement during fiscal year 1983 of some survey reductions required in fiscal year 1982 was accomplished with increased appropriated funding for that purpose. The quarterly Cold Storage, Livestock Slaughter, Layers and Egg Production, Milk Production, and Dairy Products reports were restored to a monthly schedule. The Catfish processors report, cancelled in fiscal year 1982, is now issued montnly, and the annual Mink release, also dropped in that year, was again published in 1983.

Annual yield validation surveys were completed last fall and new objective yield surveys for grain sorghum, rice, and sunflowers will be conducted during the 1984 crop growing season with new funds provided in FY 1984. Improvements in electronic dissemination of Crop Reporting Board reports are underway. The user fee for publications system implemented in 1982 is working satisfactorily, and the increased emphasis in the electronic dissemination work is complementing this approach.

The SRS has cooperative arrangements with State Departments of Agriculture and or universities in the operation of the 44 SRS field offices serving the 50 States. These arrangements have been very beneficial to all organizations involved because of the increased efficiencies and elimination of possible duplication of effort. SRS now has over one-third of its field offices located in office buildings with State cooperators. These colocations have been very beneficial in providing increased service and data in the agricultural statistics area.

A research program is conducted to contribute to improved efficiency, accuracy, and reliability of the SRS estimates. Part of the program is associated with the AgRISTARS project, and the use of remote sensing data in the development of new methods for acreage estimation and crop condition assessment.

The SRS also conducts surveys for other Federal, State, and private agencies on a reimbursable basis. The survey capability that exists in this Agency can provide these services much more efficiently than can the individual agencies themselves.

An SRS long-range plan has been developed by an internal group through contacts with many data users in both the private and public sectors. The main thrust of the plan is for improved standards in the conduct of surveys and for the reliability of our estimating programs. A number of internal working groups have been established to study the operational feasibility of the various segments and to pilot test portions of the plan.

Fiscal Year 1985 Plans

The major SRS crop acreage surveys are not currently conducted using the improved methodology of probability based procedures. The SRS long-range plan to convert major surveys to probability methods included the crop acreage surveys in its recommendations to meet the increasing need for reliable and accurate estimates. An increase of $750,000 is requested to convert the three major acreage surveys (February Intentions, June Acreage, and Fall Acreage and Production) from nonprobability to probability methodology. This shift would increase the reliability of the crop acreage estimates at the national and State level as has been done with other surveys converted to these procedures. This funding proposal involves a 3-year plan of implementation with about one-third of the States to be phased into the procedures each year, and will require additional funding to complete.

This concludes my statement, Mr. Chairman, and I will be happy to respond to your questions.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

SRS LONG-RANGE PLAN

Question: Please outline for the committee the various segments of the long-range plan developed by the internal group.

Answer: The Executive Summary from this plan follows.

Framework for the Future
Executive Summary

The Statistical Reporting Service of United States Department of Agriculture should operate in the future under more tightly drawn standards for each aspect of its work. The present approach of independent surveys should be modified to provide a coordinated program of surveys which will improve the quality of current estimate series, provide the basis for additional series of estimates, and facilitate communication and understanding with farmers and other survey respondents. These improvements will be some of the major results of implementing a new long-range plan for the Agency.

W. E. Kibler, Administrator, asked a group of five Agency employees in July 1982 to draw up the framework for "establishing a detailed long-range plan." His charge to the group was comprehensive, requesting recommendations on: Agency functions that needed strengthening, future data needs, operational efficiencies, changing methodologies and technology for possible adoption by the Agency, and emerging accuracy and reliability requirements.

The Long-Range Planning Group sought information from many sources. Data users, data providers, and representatives of other governmental agencies were interviewed to collect viewpoints of future changes expected in agriculture, implications of those changes on the Statistical Reporting Service activities, and present and future data needs. In addition, Agency personnel were queried to identify areas of possible improvement and to obtain suggestions for future activities.

The framework report was presented to the Agency's Program Planning Committee March 1, 1983. The report is regarded by the authors as a plan for building upon the present Agency foundation of providing timely, basic data on United States agricultural production and prices. The Plan calls for some reorientation and expansion of the present probability surveys rather than identifying completely new methodologies.

The Plan is based on three assumptions about the content of the estimating program: (1) some of the most important decisionmaking information will be early, accurate forecasts; (2) data needs of each segment of the entire agricultural production community should be served in at least a minimum capacity with annual data; and (3) there will be increasing needs for local area data.

The basic emphasis of the Long-Range Plan is the definition of standards for each aspect of the Agency program. These standards would include establishing guidelines for reviewing survey content, sampling plans, questionnaire content, and analysis and publication procedures. Target sampling variations would be defined for all surveys.

The statistical standards approach would be extended to the procedures used for the final review of survey indications and publication of reports by the Crop Reporting Board. The goal is to make the Board review process more objective and to publish more information on Crop Reporting Board procedures and survey characteristics. A basic recommendation is that survey data be analyzed more thoroughly so that, in addition to publishing basic statistics, the Agency can publish more detailed information to be used to interpret the basic data.

The Statistical Reporting Service, in the last 25 years, has converted many of its surveys to a probability basis. The Long-Range Plan recommends extension of the probability sampling approach to all major crop acreage and production surveys. In addition, it is recommended that nearly all Agency surveys be incorporated into an integrated survey program. This program would revolve around a large-scale midyear probability survey for crop acreage and livestock estimates. This survey would be an omnibus survey with questions on a broad range of commodity items. Nearly all survey samples for the following 12 months would then be selected as subsamples from the midyear survey. Additional sampling units would be selected in the fall for strengthening the county estimate program. This integrated survey program, in addition to providing statistical advantages, would allow better communication with farm operators regarding survey contacts during the next 12 months. The program as proposed would establish common beginning and midyear reference dates for all major livestock and poultry series.

A number of actions are recommended by the Plan to strengthen Agency internal data collection procedures, information management activities, and personnel policies. The driving force for each of these actions will be the increased emphasis on adhering to the defined statistical standards.

The Statistical Reporting Service will not be able to meet all demands for information. The Long-Range Plan addresses this fact by calling for an ongoing formalized review process of the estimating program. This review will examine all data series for relevancy, timeliness, uses made of the data, and need for additional detail. New program initiatives can be determined by examining the decisions which are made on the basis of current data series and decisions which could be made if additional data were available.

Contacts made during the Long-Range Plan information gathering process pointed out confusion between the Statistical Reporting Service estimating program and data series of other Department of Agriculture agencies. There is also confusion concerning the identity and role of Agency's State Statistical Offices, which operate under cooperative agreements with State Departments of Agriculture or Land Grant Institutions. Because of these misunderstandings and changing data collection, transmission, and summarization methodologies, the Plan suggests a review of the Agency's organizational structure and working identification.

The last section of the Plan deals with relationships with other agencies. The Statistical Reporting Service should explore opportunities for confidential exchange of files where such exchanges will result in improvements in sampling procedures or will reduce costs of providing basic data estimates. Specifically, the Agency should work more closely with the Bureau of Census, Agriculture Division to eliminate differences in data series concepts and to seek mutual sharing of survey records for better coordination of census and current agricultural statistics programs.

Two initiatives were identified for the Assistant Secretary for Economics of the Department of Agriculture. The first would call for a review of the entire county estimates program of the Department of Agriculture agencies which either collect, fund, or need county level information. The second initiative would be a review of all foreign and domestic statistics programs of the Department in order to establish standards for all data series similar to those to be established for the Statistical Reporting Service series.

The Long-Range Plan did not identify a needed list of initiatives requiring new funding. Instead, most advances can be accomplished by existing personnel within planned budgets through redirection of some Agency resources.

Question: How many of these segments have already been instituted?

Answer: Initial work has begun on strengthening the statistical standards in five of the nine areas outlined in the plan. These are data collection, data editing, survey summarization, analysis, and quality control. Work on these will be completed in 1985.

Question: Which portions of the plan would be pilot tested? Are any portions ready to be pilot tested?

Answer: The Integrated Survey Program designed to reduce respondent burden and survey costs is being pilot tested in three States (Arizona, Illinois, and Tennessee) during 1984. If this test is successful the program will be instituted on an operational basis in one-third of the States in 1985.

A Task Group is developing a plan for an Agency Information Management System for providing improved automation for sampling, survey preparation, data capture and edit, data summary and analysis, and data dissemination. This plan will be completed in the fall of 1984.

A Task Group has reviewed current Crop Reporting Board standards and procedures and identified changes that need to be made to strengthen the analysis and security of market sensitive data. Recommendations from this group will be presented to an outside panel of expert statisticians and analysts in July 1984 for further evaluation. Implementation will begin after this review.

STAFF-YEARS CEILING

Question: Your staff-year ceiling is to be cut by nine positions from 1984 to 1985. What impact will this reduction have on SRS?

Answer: The Agency will be able to continue its full program of work with the reduced ceiling for 1985. Increased automation in both the program and administrative services areas will enhance staff productivity and reduce staff requirements.

Question: How will this reduction be made?

Answer: Eight of the reductions will be made in the crop and livestock estimates program area, including two in administrative management. One staff ceiling cut will occur in Agency reimbursable work done for other USDA agencies.

OTHER SERVICES

Question: You are showing an increase of $2,277,000 for "other services" in your Object Classification table. Will you please explain this increase.

Answer: About 27 percent ($608,000) of the $2,277,000 increase is associated with data collection for 1985 program increases and reimbursable work. The remaining increase of $1,669,000 is associated with inflationary costs and the increased ADP requirements for the expanding program.

OPERATING COSTS

Question: If the $1,300,000 proposed increase in operating costs is not provided, what would be the impact on SRS? Be specific.

Answer: If the $1,300,000 proposed increase in operating costs is not provided the Agency would eliminate some quarterly prices paid surveys that collect data on input costs that are used in developing farm income and cost of production for various agricultural commodities.

PROBABILITY METHODOLOGY

Question: How will the implementation of probability based survey procedures improve the reliability of crop estimates?

Answer: During 1979-1980, a panel of outside statistical experts spent several months studying the statistical methodology and procedures used by the Crop Reporting Board. Their recommendations and findings are in a detailed 1980 report that covered 8 areas--measurement and quality control for surveys, Crop Reporting Board procedures, non-probability surveys, prices received surveys, multiple frame sampling, objective yield survey methodology, enumerator training, and questionnaire design. The panel's recommendation on non-probability surveys stated that Agency "steps underway should be accelerated and new ones initiated towards the prudent elimination of non-probability sampling over a period of years, for most National and State estimates. Particularly, priority may be needed for data on stocks as well as acreages and production data."

The Agency totally concurred with this recommendation. Non-probability surveys do not guarantee that sample survey results can ~~be expected to accurately represent all farmers in the U.S.~~ Probability based sampling requires the scientific selection of a random sample of farmers and collection of data by mail, telephone or personal interview from all those selected in the sample. This procedure greatly increases data collection costs. In non-probability sampling, a subjective sample of farmers with a consistent history of reporting are surveyed by mail. No follow-up of non-respondents is made. This method is less costly but does not guarantee results that represent all farmers in the U.S. To implement the panel's recommendation a 5-year Crop Data Improvement Project was developed. The initial phase of this project was funded in Fiscal Year 1983 and the second phase funded in Fiscal Year 1984. The third and final phase of this 5-year project would begin in Fiscal Year 1985 and supply the acreage and production data recommended by the panel. The total cost for this 3-year third phase program will be $2.55 million and funding would be completed in Fiscal Year 1987 if the project is carried out as planned.

Question: You have requested an increase of $750,000 as the first part of a 3-year plan to shift all major crop acreage surveys to probability procedures. What will the estimated cost be of the remaining two phases?

Answer: The planned increases for the last 2 years would be $850,000 for Fiscal Year 1986 and $950,000 for Fiscal Year 1987.

Question: When will the implementation of this plan be completed?

Answer: The program would be fully implemented at the close of the 1987 crop production season.

CROP AND LIVESTOCK REPORTS

Question: Your notes indicate that you issued about 300 reports last year through the Crop Reporting Board. To whom is this information made available? At what cost?

Answer: The information is free in printed form to the press, members of Congress, and survey respondents plus a limited number of free copies to other Government agencies. The following "Summary of SRS' Electronic Dissemination" indicates electronic dissemination availability of our reports to those who use the services of the given vendor.

Summary of SRS' Electronic Dissemination

SRS began releasing major crop and livestock reports on Infonet in early 1977. In mid-1980 this shifted to the Martin Marietta Data System (MMDS). The SRS National Public Library still resides on MMDS where reports are released via the Inform network. In mid-1982 SRS began making summary versions of Crop Reporting Board (CRB) reports available via electronic mail. This was a cooperative effort between the USDA News Center and SRS. At 3:00 p.m. the News

Center personnel would dial-up the Crop Reporting Board minicomputer on which SRS had placed a one or two page summary of major CRB reports. The summary was then moved to the News Center's word processing system and onto their USDA Online system available via Dialcom where other USDA agencies' releases were also made available. USDA's Online gives the public access to all USDA news releases via the Dialcom network. Available materials include news releases about policies and programs on crop and livestock production, Economic Research Service report abstracts and a weekly letter for farm magazines and newspapers. Recently added was a schedule of public appearances and speeches by USDA officials. SRS also cooperates with the Extension Service wherein the reports are moved from the Inform file on MMDS to Current Outlook Information Network (COIN) accessible to Dialcom users.

In late 1983 SRS increased its involvement in electronic releases. With receipt of additional equipment in Data Services Branch, the releases are now put directly onto Dialcom by SRS. The one or two page summary is now prepared during the report preparation time and a file loaded onto the Data Services Branch word processing system prior to 3:00 p.m. At 3:00 p.m. the file is transmitted to Dialcom for releases as soon after 3:00 p.m. as possible. In some cases it has been available to the public prior to 3:10 p.m. The format continues to be an 80 character record one or two page summary. As such this is considered a supplemental service to rather than a substitution for the Inform network on MMDS. Persons desiring more than a one or two page summary (considered to have "news" value) should go to the Inform network via an account with MMDS to get more detail than is available on Dialcom. The view of Online is as a service for those persons desiring in electronic media the same type of information they would find in a news release.

The schedule of 1984 CRB releases to be made available was set with cooperation between SRS Data Services Branch and the USDA News Center. This assured content and subjects consistent with the intent of Online. Reports for items with a very limited audience or which are not timely (historic) are not released via Dialcom. Also reports from which a meaningful one or two page summary (narrative, tables, or both) could not be extracted are excluded from Dialcom. Data Services Branch worked with Estimates Division personnel to decide which data from a given release would be put into the Dialcom summary. As release content changes due to seasonal variation or SRS program changes the Dialcom content can readily be altered also. This is available to a Dialcom user simply by executing an INFO CRB command once they are into the USDA Online.

Once moved into the publicly accessible data base on Dialcom, the CRB releases are monitored by USDA News Center personnel. The News Center removes a file from the data base within 7-10 days after creation. It is not deemed to be "news" after it reaches this age. Since Online is intended for news rather than as a reference source, this file cleaning is a valuable service performed by the News Center for SRS. A procedure is being considered whereby the author of a release could enter a purge date, at which time the message would be automatically removed from the data base. This is still in the discussion and planning stage at present.

The following order forms indicate the prices for various publications whether sold by the Government Printing Office (GPO) or Statistical Reporting Service (SRS).

Crop Reporting Board

Statistical Reporting Service

ORDER FORM
USDA CROP REPORTING BOARD REPORTS

Report Title	Subscription Fee Domestic	Subscription Fee Foreign
FIELD CROP SERIES		
[ ] Crop Production (monthly/annual) Plus single copies of: Prospective Plantings, Acreage, Small Grains	$29.00	$36.25
[ ] Grain Stocks Four issues plus copy of: Soybean Stocks	9.50	11.90
[ ] Potatoes & Sweetpotatoes One issue plus 6 copies of: Potato Stocks	9.50	11.90
[ ] Rice Stocks (4 issues)	6.00	7.50
FRUIT & VEGETABLE SERIES		
[ ] Celery (monthly)	16.00	20.00
[ ] Noncitrus Fruits & Nuts (midyear/annual)	5.50	6.90
[ ] Vegetables Eleven seasonal issues plus (midyear & annual).	18.00	22.50
LIVESTOCK SERIES		
[ ] Cattle Two issues plus monthly issues of: Cattle on Feed	19.00	23.75
[ ] Hogs & Pigs (4 issues)	7.50	9.40
[ ] Livestock Slaughter (monthly/annual)	20.00	25.00
POULTRY SERIES		
[ ] Egg Products (monthly)	$16.00	$20.00
[ ] Eggs, Chickens, & Turkeys Monthly issues plus single copies of: Hatchery Production Annual, Layers & Egg Prod. Annual, Poultry Prod., Disposition, & Income, Turkeys	23.00	28.75
[ ] Poultry Slaughter (monthly)	18.00	22.50
DAIRY SERIES		
[ ] Dairy Products (monthly/annual)	20.00	25.00
[ ] Milk Production Monthly issues plus single copy of: Milk Prod., Disposition, & Income	18.00	22.50
OTHER REPORTS		
[ ] Agricultural Prices (monthly)	27.00	33.75
[ ] Catfish (monthly)	16.00	20.00
[ ] Cold Storage (monthly/annual)	23.00	28.75
SPECIAL SINGLE COPY REPORTS		
[ ] Scope & Methods of the Statistical Reporting Service SN: 001-000-04369-2	5.00	6.25
[ ] Agricultural Statistics, 1982 SN: 001-000-04269-6	8.50	10.65
[ ] Agricultural Statistics, 1983 (To be published in March 1984. For price information, call (202) 447-4021)		

Note: For your convenience in ordering, we have grouped several publications together in packages. For example, when you subscribe to the Crop Production series you will receive 12 monthly copies and an annual summary of that report plus single copies of Prospective Plantings, Acreage, and Small Grains. If you have any questions about ordering, please call (202) 447-4021.

HOW TO ORDER

- *Check appropriate box.
- *Calculate the total charges for subscriptions and enter below.
- *If your address is outside the United States, use "foreign" price.
- *Make check or money order payable to the Superintendent of Documents.
- *Allow 6 weeks for processing.
- *For faster service or foreign air mail information, call (202) 783-3238.
- *Mail this entire form to: Superintendent of Documents
  Government Printing Office
  Washington, D.C. 20402

Enclosed is $ ________ ☐ check. ☐ money order, or charge to my Deposit Account No.

☐☐☐☐☐☐☐–☐

Order No ____________

MasterCard and VISA accepted.

Credit Card Orders Only

Total charges $________

Fill in the boxes below.

Credit Card No. ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Expiration Date Month/Year ☐☐☐☐

Customer's Telephone No.'s

Area Code | Home | Area Code | Office

Charge orders may be telephoned to the GPO order desk at (202)783-3238 from 8:00 a.m. to 4:00 p.m. eastern time, Monday-Friday (except holidays)

Company or Personal Name

Additional address/attention line

Street address

City | State | ZIP Code

(or Country)

PLEASE PRINT OR TYPE

For Office Use Only

Quantity		Charges
____	Publications	________
____	Subscriptions	________
	Special Shipping Charges	________
	International Handling	________
	Special Charges	________
	OPNR	________
____	UPNS	
____	Balance Due	
____	Discount	
____	Refund	

Crop
Reporting
Board

ORDER FORM
USDA CROP REPORTING BOARD PUBLICATIONS

(Publications available only from Crop Reporting Board)

	Issued	Subscription Fee Domestic	Subscription Fee Foreign
FIELD CROP SERIES			
[ ] Hop Stocks (2 issues)	Mar. & Sept.	$2.50	$3.50
[ ] Peanut Stocks & Processing	Mar. & Sept.	2.50	3.50
FRUIT & VEGETABLE SERIES			
[ ] Cherry Production	June	1.25	1.75
[ ] Cherry Utilization	October	1.25	1.75
[ ] Citrus Fruits	September	1.50	2.00
[ ] Cranberries	August	1.25	1.75
LIVESTOCK SERIES			
[ ] Meat Animals Production, Disposition, & Income	April	1.50	2.00
[ ] Sheep & Goats	January	1.25	1.75
[ ] Wool & Mohair	March	1.25	1.75

	Issued	Subscription Fee Domestic	Subscription Fee Foreign
POULTRY SERIES			
[ ] Turkey Hatchery	Monthly	$18.00	$24.00
PRICES & EXPENDITURE SERIES			
[ ] Agricultural Prices Annual	June	5.00	6.25
[ ] Crop Values	January	2.00	2.50
[ ] Farm Production Expenditures (2 issues)	June & July	5.00	6.25
[ ] Minnesota-Wisconsin Milk Prices	June	1.25	1.75
OTHER CROPS			
[ ] Commercial Fertilizer	November	2.00	2.50
[ ] Farm Labor	August	1.50	2.00
[ ] Mink	July	1.25	1.75
[ ] Mushrooms	August	1.25	1.75
[ ] Sugar Market Statistics (4 issues)	Quarterly	5.00	6.25

HOW TO ORDER

- *Check appropriate box.
- *Calculate the total charges for subscription and enter below.
- *If your address is outside the United States, use "foreign" price.
- *Make check or money order payable to USDA/SRS. Do not send cash.
- *Allow 2 weeks for processing.
- *For additional information about reports and ordering, call (202) 447-4021.
- *Mail this entire order form:

CROP REPORTING BOARD PUBLICATIONS
ROOM 5829, SOUTH BUILDING
U.S. DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250

Please send me the item(s) I have indicated above.

Company or Personal Name ____________________

Additional Address/Attention Line ____________________

Street Address ____________________

City ____________________ State __________ Zip Code ____________________

Question: Do you have a user fee for these publications? Does SRS recover these fees or are they collected by GPO?

Answer: Both SRS and GPO have user fees for the publications they handle. SRS does not recover those fees collected by GPO. We do, however, retain the fees for sales, both subscription and over the counter, made by our Publications Unit in room 5829 South Building.

Question: How reliable is the information you receive from farmers, ranchers, agribusiness, etc. for your crop and livestock reports?

Answer: We recognize that a few producers may attempt to provide false information. Their reasons may vary from fear of the Internal Revenue Service (IRS) to hope for personal gain. To counteract this, as well as to identify unintentional errors in reporting, we screen all responses by edits and/or checks for reasonableness and consistency. Experience has shown that an individual may provide a few misleading responses, but cannot consistently misreport throughout a questionnaire or from survey to survey. The vast majority of producers are honest, sincere people who recognize the final estimates can be no better than the raw data they give us.

When survey response is sufficiently large and the falsification is random, the erroneous information in the sample--if undetected--will cancel. New techniques to ensure more accuracy, through the use of automated systems, are always being tested. The comparison of official SRS estimates with information available from administrative sources such as marketings, and Agricultural Stabilization and Conservation Service (ASCS) and Census data, does not support the premise that falsification is jeopardizing accuracy of reports.

Past efforts to verify cases of intentionally false reporting have shown that it is always "someone else" who provides false information. It is our firm belief that farmers who report voluntarily provide the best information they can. Those who would falsify their reports simply don't respond.

STATISTICAL CLEARANCE FUNCTION

Question: What was the purpose of transferring the Statistical Clearance function from the Statistical Research Division to the Office of Information Resources Management?

Answer: The statistical clearance function was transferred to the Office of Information Resources Management (OIRM) in the Office of the Secretary so the Department would be in compliance with the "1980 Paperwork Reduction Act" as enacted by the Congress and signed into law.

Question: What has been the impact of this transfer?

Answer: Under the previous management, the Agency (SRS) performed a Department-wide service for all USDA agencies. The new location places the function in an organizational unit that handles many issues that cut across agency lines and clearly gives it more Department focus. Through a memorandum of agreement with OIRM, the Agency will continue to supply the unit with two capable statisticians, on a rotational basis, for evaluating the soundness of proposed survey and analysis methodologies.

PASSENGER MOTOR VEHICLES

Question: Your notes indicate you are requesting the purchase of one additional motor vehicle and the replacement of 3 passenger motor vehicles. Where will these vehicles be used?

Answer: Three of the vehicles will be used as replacements in North Dakota, Alabama, and Indiana. The new vehicle will be assigned to Minnesota.

Question: How many motor vehicles are assigned to SRS?

Answer: The requested purchase of one additional vehicle, if allowed, will bring the total number of motor vehicles assigned to SRS to 13.

Question: Why is the use of common carrier not feasible in carrying out the programs of SRS?

Answer: Common carrier facilities are not available in rural areas of most States. Since this is where most SRS travel is conducted, it is simply not feasible to depend on common carrier.

LANDSAT

Question: Since SRS was a user of LANDSAT data, how will you now get the kind of information you previously obtained from LANDSAT to do your job. What will be the cost?

Answer: LANDSATS 4 and 5 both continue to provide data at 8-day intervals for users. SRS has no plans to reduce our purchases of LANDSAT data. In Fiscal Year 1984 we will spend $300,000 for the purchase of these data. SRS is using LANDSAT products for stratification of our area sampling frames, acreage estimates for major crops in Arkansas, Colorado, Illinois, Iowa, Kansas, Missouri, and Oklahoma, and research relating to crop yield models, land cover, and other alternative uses.

We expect our purchases of satellite data to increase in the future as we improve our ability to use this technology in a cost effective manner. Satellites to be launched by France and Japan are expected to provide data of similar quality as LANDSAT starting in 1985 and later years.

PUBLICATIONS

Question: Please provide for the record an up-to-date listing of the reports that are now being provided and paid for by SRS; and those provided, but paid for by industry or some other source. Also, provide the costs of each publication.

Answer: The accompanying publication, Crop Reporting Board Catalog, shows the 1984 releases issued by SRS under the program currently in effect. All of the CRB reports are funded from the present Statistical Reporting Service appropriated budget except the quarterly Sugar Market Statistics report. The Commodity Credit Corporation (CCC) of the USDA provided $48,000 in Fiscal Year 1984 to fund this report. The Malting Barley Association contributes $13,200 to cover costs of the annual Barley Variety Survey, and the California Almond Board contributes $46,250 for special almond production data. Although private funds pay for these reports they are made available to all data users in the same manner as other reports. The Weekly Weather and Crop Bulletin is a cooperatively funded report with the National Oceanic and Atmospheric Administration in the Department of Commerce.

(Clerk's note: The publication, Crop Reporting Board Catalog, referred to above has been retained in the files of the Subcommittee.)

Question: Last year, you indicated there were some problems associated with the servicing of subscribers to the reports distributed by the Superintendent of Documents. Has this improved? Are the reports being printed and distributed on a more timely basis?

Answer: The following table shows 9 months of data for a test subscription. We have no comparable analysis from the previous year.

While we have no quantitative data to support it, it appears that the number of customer complaints is about static.

FAIRFAX GPO SUBSCRIPTION RECEIPT RECORD
NO. DAY FROM RELEASE TO RECEIPT OF SUBSCRIPTION COPY

Release Title	July '83	Aug. '83	Sept. '83	Oct. '83	Nov. '83	Dec. '83	Jan. '84	Feb. '84	Mar. '84	Survey Ave.
F.P.E.S.	5	-	-	-	-	-	-	-	-	1/ 5.00
Catfish	8	4	4	-	20	9	10	-	8	7/ 9.00
C.O.F.	10	11	8	6	16	7	9	23	-	8/11.25
Cattle	7	-	-	-	-	-	10	-	-	2/ 8.50
Mo. Cold Storage	7	7	6	11	10	19	6	8	7	9/ 9.00
Mo. Eggs, Chick. & Turk.	6	3	6	7	10	-	9	7	12	8/ 7.50
Mo. Lvstk. Slau.	8	10	6	7	10	7	10	10	12	9/ 8.89
Mo. Milk Prod.	10	7	8	10	6	7	8	8	10	9/ 8.22
Mo. Ag. Price	-	24	6	7	7	10	-	7	7	7/ 9.71
Celery	-	6	5	14	10	-	-	16	9	6/10.00
Mo. Crop Prod.	-	6	10	5	11	-	13	[illegible]	6	7/ 9.14
Mo. Dairy Prod.	-	6	7	4	6	7	6	[illegible]	13	8/ 7.50
Egg Prods.	-	8	-	14	-	11&14	13	[illegible]	-	5/12.00
Poultry Slaugh.	-	7	7	4	7	-	8	[illegible]	10	6/ 7.17
Rice Stocks	-	7	-	-	-	-	-	-	-	1/ 7.00
Vegs.	-	7	6	12	-	2	6	-	10&6	7/ 7.00
Soybean Stocks	-	-	7	-	-	-	-	-	-	1/ 7.00
Hogs & Pigs	-	-	3	-	-	8	-	-	6	3/ 5.67
Pots.&Sweetpots.	-	-	7	-	-	-	-	-	-	1/ 7.00
Grain Stocks	-	-	-	4	-	-	7	-	-	2/ 5.50
Small Grains	-	-	-	-	-	12	-	-	-	1/12.00
Egg, Chick. & Turk. P.D.I.	-	-	-	-	-	9	-	-	-	1/ 9.00
Potato Stocks	-	-	-	-	-	6	13	7	7	4/ 8.25
Crop Prod. Ann. Summary	-	-	-	-	-	-	10	-	-	1/10.00
Egg, Chick. & Turk. Annual	-	-	-	-	-	-	7	-	-	1/ 7.00
Ann.Hatch. Prod.	-	-	-	-	-	-	-	-	6	1/ 6.00
Non Cit.Frt.Ann.	-	-	-	-	-	-	13	-	-	1/13.00
Prosp. Plant.	-	-	-	-	-	-	-	7	-	1/ 7.00
Ann.Cold Storage	-	-	-	-	-	-	-	-	8	1/ 8.00
Ann. Turkeys	-	-	-	-	-	-	8	-	-	1/ 8.00
Ann. Lvstk.Slau.	-	-	-	-	-	-	-	-	7	1/ 7.00
										8.30
Mo. Average	8/ 7.63	14/ 8.07	15/ 6.40	13/ 8.08	11/ 10.27	14/ 9.14	18/ 9.22	11/ 10.64	17/ 8.47	8.66

Max.=24 Min.=2
Mean of all 121 observations=8.6
Mode=7

CROP REPORTS

Completely fill the space from line to line

Question: Earlier this year it was reported that there were some "inconsistencies" in crop production and inventory reports, and this apparently caused some problems for commodity traders. Will you please explain for the committee why this conflict occurred and what action has been taken to insure this type of "confusion" does not recur?

Answer: The Crop Reporting Board reports for soybean production and stocks issued 10 days apart in January contained an inconsistency of 60 million bushels (about 3.5 percent). These reports have always shown some inconsistency, but not of this magnitude.

The 1983 soybean production estimate published January 13 was based on data collected from 200,000 farmers in mid-December and at harvest plant counts from 2,000 randomly selected fields. The mid-December production survey showed slightly higher yields and more harvested acreage than the smaller November survey. Final data on the size of the 1983 soybean crop will be available in September 1984 when the quantities of soybeans exported and crushed for the September 1983-August 1984 period are reported by the Department of Commerce. The task of accurately forecasting soybean production was more difficult in 1983 due to significant changes in our commodity programs and the most severe drought in 50 years.

The Soybean Stocks report, issued January 23, is based on data collected by canvassing 14,000 mills and elevators that purchase and store grains and oilseeds and 20,000 farmers who store grain on the farms they operate. The statistical methodology for the stocks report is superior since 85-88 percent of the off-farm (elevator held) stocks is included in the canvass. This superior methodology does not indicate that either report is in error. The inconsistency in the reports is believed to be associated with weaknesses in the review and analysis of survey indications to arrive at the published estimates, rather than the basic survey data. A qualified task force has been named to study the methods currently used to interpret survey results and set estimates. This review will cover all survey indications, estimates and check data for the past few years. This comprehensive approach is needed to strengthen the overall estimation procedures that will be used by the Board in future production and stocks reports.

The Agency started strengthening production and stock procedures in Fiscal Year 1983 by implementing a "Crop Data Improvement Project." The first phase covering on-farm stocks became operational in April 1984. The second phase, funded for Fiscal Year 1984, will start with the 1984 crop. It will stress quality control work for current corn, soybean, wheat, and cotton surveys as well as development of new objective yield methods for estimating yields of rice, grain sorghum, and sunflowers. The final phase will convert all non-probability major crop acreage and production surveys to a probability basis during the 1985-87 period.

Question: Were USDA officials, in fact, transferred or reassigned? Why?

Two lines left

Answer: The SRS has always followed a staff rotation policy designed to develop the best possible staff for responding to the agricultural data needs of farmers, agribusinesses, commodity analysts, and policymakers. On January 27, SRS announced some top staff rotations for Deputy Administrator, Director of the Estimates Division, Chief of Crops Branch, and Head of Field Crops Section. These rotations were based solely on Agency recommendations to the Assistant Secretary for Economics. As word about these staff rotations reached the press and commodity markets, rumors spread rapidly about data manipulation, improprieties of staff, wrongdoing, and these being merely actions to take the "heat off the Department." You can be assured these were only rumors.

The need for staff changes was based on Agency evaluations and observations over the past 15 months. Inconsistencies in the Crop Production and Grain Stocks reports first appeared in October 1982 stocks reports and continued into 1984. These inconsistencies were identified by many analysts in the public and private sectors. Later, Crop Reporting Board revisions for 1982 soybean production and quarterly 1983 estimates of corn stocks eliminated some of these inconsistencies. The January 1984 reports started the same pattern again for 1983 crops. They clearly highlighted the need for some changes.

In making the staff changes, it was felt that (1) an in-depth review of analysts' questions about 1982 and 1983 supplies could be done more objectively and thoroughly by a different group of leaders; (2) a new team would bring a fresh look at current survey methodology, analysis procedures, survey scheduling, and 1982 Census of Agriculture data now being released; and (3) results from the Agency's new "Crop Data Improvement" project being phased in during 1983-87 would be improved by the staff changes. These were tough decisions for the Agency and difficult on the staff involved. However, they were necessary to ensure the best quality performance possible for the Crop Reporting Board for 1984 and the future. The record of the Board over the next few years should be the criteria for evaluating the merits of these decisions.

WORLD AGRICULTURAL OUTLOOK BOARD

STATEMENT OF JAMES R. DONALD, CHAIRMAN

Overview

The World Agricultural Outlook Board (WAOB) is a key part of the U.S. Department of Agriculture's (USDA's) continuing effort to ensure that its commodity information system responds to today's rapidly changing world agricultural sectors. The purpose of the WAOB is twofold: to optimize the accuracy, objectivity and timeliness of USDA's economic intelligence on worldwide developments which influence the domestic agricultural system; and to speed the flow of that information to producers, consumers, policymakers and the general public.

WAOB's main function is to coordinate and review for accuracy and consistency all USDA estimates and analyses relating to international and domestic commodity supply and demand conditions. WAOB also continues to maintain liaison with international organizations, such as the United Nations Food and Agriculture Organization, and domestic agencies, such as the Commodity Futures Trading Commission.

WAOB is the Department's focal point for weather and climate information and weather-based impact assessment; these monitoring activities within USDA are coordinated by the WAOB Chairman. Remote sensing activities in USDA also are coordinated by the WAOB Chairman. Space sensors and ground-based sensors which communicate through space relay systems have the potential to improve the accuracy and timeliness of earth resources data and crop condition information now collected on the ground.

Specific Functions and Progress

WAOB has continued to improve its ability to integrate information from the Department's world agricultural intelligence system. WAOB provides leadership for the interagency commodity estimates committees (ICECs) and has sought to expand each ICEC's analytical role in current condition and impact assessment. These committees include representatives of the

Economic Research Service (ERS), Agricultural Stabilization and Conservation Service (ASCS), Foreign Agricultural Service (FAS), Agricultural Marketing Service (AMS), and WAOB. All committee members are USDA professionals with responsibility for developing official estimates of supply, utilization and prices for the major agricultural commodities. It is through the interagency membership of these committees that the various USDA agencies work together in a coordinated effort. Development and use of new analytical tools and evaluation of forecasting performance has become an ongoing responsibility of each committee.

Weather, as much as any economic or policy development, continues to be a significant and most unpredictable variable underlying agricultural production and prices. Consequently, USDA has placed a high priority on incorporating weather-based impact assessment information into all analyses. The focal point is the Joint Agricultural Weather Facility (JAWF), operated jointly by the Board and the National Oceanic and Atmospheric Administration (NOAA). This facility, located in the South Agriculture Building, hourly monitors and assesses global weather events and their probable impact on agricultural output. JAWF analyses are a key ingredient in much ICEC work.

Key agricultural areas in every major producing country, including the United States, are identified by JAWF, and meteorological data from relevant weather stations around the world are analyzed daily relative to the stage of crop development. High-speed computer systems are used to process, analyze and disseminate the information for public distribution, primarily through the Weekly Weather and Crop Bulletin.

In addition to regular briefings and reports, JAWF provides special alerts when critical weather events may affect U.S. or world agriculture. This early warning capability diminishes the likelihood that farmers and other participants in the agriculture system would be caught off guard by a crop failure or some other significant global event related to agriculture. This system was of crucial importance in 1983 when assessments of the summer drought were provided daily to policymakers in USDA and members of the Administration and Congress.

Since 1979, when WAOB began coordination of an interagency effort that led to the development of a monthly World Crop Production report, the report has been prepared under secured (lock-up) conditions. This was the first USDA publication to provide integrated forecasts of crop production in all major world growing regions. This report, initiated in July 1979, is prepared in a manner similar to the Crop Reporting Board's U.S. Crop Production report. Each month, FAS and ERS commodity and country specialists meet with WAOB economists and weather specialists to evaluate attache analyses, country reports, weather information and all other available intelligence to prepare major crop production estimates for the key countries of the world. This information, along with U.S. crop estimates, then is released to the public after the commodity markets have closed.

Secure conditions are maintained during report preparation to prevent premature or illegal access to the data. By releasing the information immediately after the market closes, all users have simultaneous access to the data.

The second stage in the integrated system's evolution was the implementation in October 1980 of a procedure to develop and release the World Agricultural Supply and Demand Estimates report, either following the monthly World Crop Production report or after significant events affecting the global supply/demand balance. This report provides a complete assessment that includes supply/demand balances for all major commodities of other primary producing and consuming countries and the implications for trade, as well as supply/demand information of the overall domestic livestock/feed complex.

With world meat consumption on a steady trend upward and continued strong efforts to upgrade diets in many countries, including the USSR, it became critical that the integration of U.S. and world supply and demand estimates for crops as well as livestock be completed. Thus, the third stage of the integrated system's evolution occurred in fiscal 1983 with the addition of livestock estimates.

Recent Activities

The Crop Reporting Board of the Statistical Reporting Service and the WAOB continued co-location in a single lock-up facility to maximize security conditions for compilation and analyses of world crop data and supply/demand estimates. This results from funding provided in fiscal year 1981. This physical arrangement with the Crop Reporting Board facilitates interaction between domestic and international assessment activities and eliminates the movement of highly sensitive data between two separate lock-up areas.

While striving to enhance analytical capability, we also recognize that the potential and demand for rapid information dissemination has expanded tremendously in recent years. We are taking increasing advantage of opportunities which exist to improve the timeliness of our information. We continue to review the alternatives available for placing information from the World Crop Production and World Agricultural Supply and Demand Estimates reports in the hands of farmers and other users as quickly and effectively as possible. Alternatives include effective use of Extension Service personnel, land grant universities, state farm organizations, and others. The World Crop Production report and the World Agricultural Supply and Demand Estimates report are transmitted electronically upon release at 3 p.m. to all states which have access to the USDA extension information system. Also, since the telecommunications field has expanded rapidly in recent years, we have further tapped that technology by increased electronic dissemination of these reports.

As part of its effort in information dissemination, WAOB again directed USDA's annual Agricultural Outlook Conference, the 60th in USDA history. Nearly 1,400 representatives of Government, agribusiness, academia, and the press attended the conference.

Budget Request

Our total budget request for fiscal year 1985 is $1,677,000. This represents a net increase of $144,000 over the fiscal year 1984 level of $1,533,000. Of this total increase, $45,000 is requested for a commodity analyst for specialty crops to lead USDA outlook and analytical activities, including assessing impacts of price support programs and program changes on producer income and Government costs; $25,000 for meteorological data base acquisition for improving weather crop production assessments; $30,000 for National Academy of Sciences study of NOAA weather and climate programs; $35,000 for increased operating costs; $12,000 for annualization of pay increases effective in fiscal year 1984; and a decrease of $3,000 associated with a phased reduction of GS/GM 11-15 positions.

This concludes my statement, Mr. Chairman. My associates and I are prepared to answer any questions you may have concerning the WAOB programs and budget request.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

METEOROLOGICAL DATA BASE

Question: You have requested $25,000 to purchase historical data on key areas of the Soviet Union, China, Brazil, Argentina and India. In view of the importance of this type of information, why have you never requested it before? Is this information something that NOAA has recently acquired? Since this is a one-time cost, will this information not be updated from time to time? If you work jointly with NOAA, why is it necessary to purchase the data?

Answer: The initial effort by the World Board's Joint Agricultural Weather Facility (JAWF) was to achieve a systematic flow of current data and to use readily available historic data, although limited in places, to support daily operational needs. This allowed JAWF to identify areas where holes existed in historical data. The supplemental data sets requested from NOAA provide information that gives a better distribution over major crop areas and for crop types not covered in earlier work. NOAA initially developed some of these data under the AgRISTARS project but the work is not completed. JAWF is only selectively developing the data needed to support currently operational work in yield estimation and crop condition monitoring. JAWF will update the historical series from its operational data files. The CLIMAT data which is a monthly summary of key elements such as temperature, precipitation and sea level pressure is available in a delayed time frame of 2-3 years. This will be acquired periodically to replace the preliminary summaries compiled from the current data. The CLIMAT data is hard copy, acquired at NOAA's National Climatic Data Center after the countries complete quality control work on the operational daily data and summarize these into monthly values. The historical data are acquired through NOAA/National Environmental Satellite Data and Information Service (NESDIS). Current operational data are supplied by NOAA/National Weather Service meteorologists that are located at USDA. NESDIS has no staff working at JAWF and is required to recover all costs for the sale of historical data and its data centers. AgRISTARS is a research project only and the cooperative work is between NESDIS and USDA.

NATIONAL ACADEMY OF SCIENCES STUDY OF NOAA

Question: Has the Academy received funding for the study to identify the deficiencies in NOAA data management procedures?

Answer: Yes, the study was begun without a USDA contribution. NOAA, through the National Climate Program Office (NCPO), provided the USDA funding portion to get the study started.

Question: What is the Academy's share of the cost?

Answer: The Academy's work is estimated at $315,000 for fiscal year 1985. NAS was requested to do the special study on data under the guidance of the NCPO at the direction of the National Climate Program Policy Board (NCPPB). Funding for the

NAS work is provided by the requesting agencies under a contract developed between the Academy's Board on Atmosphere Sciences and Climate (BASC) and the NCPO. The NAS/BASC total program covers all aspects of Federal program coordination for meteorological research and climate services.

Question: Is any other Federal agency involved? At what cost?

Answer: All major Federal departments that use climate data are members of the National Climate Program and have representatives on the NCPPB. Each is assessed a portion of study cost based on size and use of climate data and meteorological services. For example, NOAA contributed $70,000 in fiscal year 1984 as did NASA; HUD contributed $5,000; and USDA was asked to contribute $30,000.

Question: What is the total estimated cost of this study?

Answer: The NAS/BASC contract for all work is $315,000 for fiscal year 1985. The work is ongoing and the contract varies from year to year.

Question: How many years will this study take?

Answer: The initial data study report is due to be released by April 1985. The final report data will depend on what additional work is required.

Question: Your explanatory notes indicate that the Department intends to participate in this "and related efforts in future years." What are these "related efforts?"

Answer: They are development of new research leading to improved analysis and application of climate information.

WEATHER FORECASTING

Question: To what extent were you involved in the severe weather conditions which occurred throughout the country in 1983?

Answer: The World Board's Joint Agricultural Weather Facility (JAWF) provided briefing material to the Secretary of Agriculture, other USDA agencies, the Congress and other major governmental decisionmakers. The Board also prepared a comparative analysis on the 1983-versus-the-1980 U.S. drought.

Question: With all the extreme weather conditions last year, how accurate was the information you disseminated to farmers and consumers?

Answer: While the Department of Agriculture does not forecast the weather, the World Board provided information and climate assessment based on weather which had occurred during the growing season and maintained daily monitoring of existing conditions. The Board also was in contact with regional offices to verify our data and information.

LANDSAT

Question: Since you no longer will have access to LANDSAT data, what will you use to replace the data used in the preparation of the research and development studies put out by USDA?

Answer: LANDSAT data should be available in fiscal year 1985, even though initial efforts may be in progress to shift the U.S.-civil space land remote sensing program to the private sector. The World Board has requested $100,000 for purchase of LANDSAT data in fiscal year 1985, which will be allocated to various USDA agencies primarily for use in research and development studies. If for some reason the Board did not have access to LANDSAT data, for example, due to failure of the system, then data from the polar-orbiting meteorological satellites could be substituted in some of the research and development studies.

Question: What agencies requested and used LANDSAT data in fiscal years 1982, 1983 and thus far in 1984? How much?

Answer: The World Board did not receive funding for the purchase of LANDSAT data in fiscal year 1982. As part of the Board's responsibility to coordinate remote sensing activities in USDA, the WAOB was appropriated $50,000 in fiscal year 1983 and $100,000 in fiscal year 1984 for the purchase of LANDSAT data. In fiscal year 1983, the $50,000 was distributed to the Agricultural Research Service, $15,000; Forest Service, $15,000; and, Statistical Reporting Service, $20,000. Thus far in fiscal year 1984, $59,000 has been requested and committed to: Soil Conservation Service, $15,000; Forest Service, $15,000; Federal Crop Insurance Corporation, $5,000; and Agricultural Research Service, $24,000.

Question: If you don't have access to this data, what impact will this have on USDA programs?

Answer: USDA as a whole, and for those agencies receiving funds from the World Board to purchase LANDSAT, lack of access to LANDSAT data will hamper incorporation of aerospace remotely sensed data into ongoing operational programs, will require use of alternative data sources, such as the meteorological satellite systems, and will lengthen applications research programs.

PUBLICATIONS

Question: How many publications are put out by the WAOB? How are they distributed and at what cost? Have you instituted user fees for any of these?

Answer: The only publication directly issued by the World Board is the World Agricultural Supply and Demand Estimates. The World Board prints 1,125 copies, of which 600 are distributed free, 475 distributed to subscribers on a user fee basis and 50 for World Board use. The World Agricultural Supply and Demand Estimates are distributed to a wide variety of agribusiness and commodity concerns, farmers, the academic community, the Executive and Legislative branches of Government, and the news media. The current cost to produce the World Agricultural Supply and Demand Estimates is $13,000, comprised of $4,000 for postage fees, $2,000 for contractual mailing services, and $7,000 for printing.

ELECTRONICS DISSEMINATION

Question: To what extent does the Board electronically disseminate information?

Answer: The Board's major publication, World Agricultural Supply and Demand Estimates, is made available electronically immediately upon release at 3 p.m. on each report day. Most other reports cleared by the Board, notably outlook and situation reports, also are made available electronically.

WAOB/CFTC

Question: Please describe the relationship of the WAOB with the Commodity Futures Trading Commission?

Answer: As World Board chairman, I coordinate ongoing day-to-day activities between USDA and the Commodity Futures Trading Commission (CFTC). I provide information for the Commissioners on current and potential commodity price movements, analyze underlying causes, as requested, and stay in contact with the Commission futures market developments.

JOINT AGRICULTURAL WEATHER FACILITY

Question: What is the annual budget for the Joint Agricultural Weather Facility?

Answer: The Joint Agricultural Weather Facility is jointly budgeted by the World Agricultural Outlook Board and the National Oceanic and Atmospheric Administration. The annual fiscal year 1985 budget for this facility is $704,000 comprised of $430,000 from the World Board and $274,000 from NOAA.

Question: How many of your staff are assigned to this facility?

Answer: We have seven staff positions assigned currently to this facility on a full-time basis, in addition to seven staff years provided by the National Oceanic and Atmospheric Administration.

FARM CREDIT ADMINISTRATION

1984 REPORT TO CONGRESS

To Members of Congress

Without question, U.S. agriculture is experiencing very difficult economic times, and Farm Credit System (System) institutions are not immune to the same conditions adversely affecting many of their own borrowers and those of other financial institutions. This is not the first year in which difficult economic conditions have prevailed. Last year we reported that combined Production Credit Association (PCA) loan losses for the previous 3 years exceeded the combined losses for the preceding 47 years. Since then, the spring floods and extensive summer drought in 1983 have further aggravated the situation. As a result, production credit associations in 1983 were subject to the worst financial pressure since the 1930s. The estimated $240–250 million in losses sustained by PCAs in 1983 represents, in 1 year, approximately 40 percent of all losses throughout their 50-year existence. Fortunately, reserves prudently built up over the years have once again proved adequate to absorb current losses without any impairment of the System's ability to meet its obligations to investors, but some PCAs have had to merge, consolidate, or be liquidated.

The Farm Credit Administration (FCA) and the Farm Credit System are no strangers to economic adversity. Indeed, PCAs have their origins in the depressed agricultural economy of the 1930s. Conscious of that past, we at FCA take seriously our responsibility to serve the credit needs of American agriculture and protect the public trust vested in the Farm Credit System.

The response to these troubled times by FCA and the System has been threefold:

FCA has intensified its supervisory activities of the banks and associations to protect the best interest of both the System and the general public that has invested in System securities;

FCA continues to urge institutions within the System to stay with troubled borrowers as long as they have any reasonable prospect for recovery under foreseeable market conditions; and

The System has launched a major study called "Project 1995" to guide its long-term planning efforts.

It must be recognized that, while most analysts believe the agricultural outlook for 1984 will be generally positive, four years of accumulated stress on farmers and on the Farm Credit System will not vanish overnight. It will take two or three years of improved income to restore financial strength, reestablish liquidity, and rebuild reserves. Meanwhile, the System will likely face more difficulty in 1984 than in 1983. Repayment, refinancing, and loan servicing problems are expected to increase as lenders continue to work with troubled borrowers and help them regain their strength. Despite these continued pressures, our opinion, based upon careful examination, supervision, and regulation, is that the Farm Credit System remains fully capable of meeting the challenges ahead.

Donald E Wilkinson

Donald E. Wilkinson
Governor

Introduction

On behalf of the Farm Credit Administration (FCA), the independent Federal agency responsible for supervising, regulating, and examining the cooperative Farm Credit System (System), we appreciate this opportunity to present our annual Report to Congress on the condition of that System in 1983. The Farm Credit System was created by Congress in recognition of the special need for a reliable source of "sound, adequate and constructive credit" to serve creditworthy U.S. farmers, ranchers, and commercial fishermen. In this report, we will evaluate the System's performance over the past year in carrying out its unique congressional mandate and mission. We will also provide our assessment of the current "state of agriculture," as well as the System's ongoing efforts to stand by borrowers and institutions during this period of extended difficulty and significant stress while moving forward to strengthen the System.

Farm Credit System institutions are private borrower-owned credit cooperatives that operate without any expenditure of taxpayer dollars. The System finances its loan operations through the sale of securities to investors in the Nation's financial markets. Included within the overall structure of the Farm Credit System are three bank groups:

1. Federal land banks (FLBs) and local Federal land bank associations (FLBAs) offering long-term loans secured by first liens on real estate.
2. Federal intermediate credit banks (FICBs) and local production credit associations (PCAs) providing short- and intermediate-term credit primarily for production purposes.
3. Banks for cooperatives (BCs) extending a full range of credit and related services to agricultural cooperatives.

The 470 Federal land bank associations across the country serve specific geographical areas in 12 districts with a Federal land bank for each district. The 412 production credit associations similarly serve territories in 12 districts with a Federal intermediate credit bank for each district. Each of the 12 districts also has a bank for cooperatives, and there is the Central Bank for Cooperatives located in Denver, Colorado. Directors of FLBAs and PCAs are elected by the farmer-borrowers who are also stockholders in those associations. The district banks operate under the direction of a district Farm Credit board of directors, six members of which are elected by local associations and cooperatives. A seventh member is appointed by the Governor of FCA.

Overseeing this organizational structure is the Farm Credit Administration, which consists of the Federal Farm Credit Board (FCA's policy-making body), the Governor and his staff. Overall policy direction for FCA in its supervision of the System is set by the 13-member Federal Farm Credit Board. The Board is composed of one member from each of the 12 districts appointed by the President of the United States and confirmed by the Senate. A thirteenth member is appointed by and serves at the pleasure of the Secretary of Agriculture.

FCA does not rely on any Federally appropriated funds for its operating expenses. Rather, the expenses of FCA are borne solely by the System through assessments upon the 37 Farm Credit banks. FCA is fully committed to ensuring a healthy and sound Farm Credit System that is so essential for a productive agricultural sector; therefore, FCA closely supervises System activities to ensure that they meet the specific objectives of the Farm Credit Act of 1971, as amended.

Highlights

Agricultural Conditions

Improvement in farm sector income in 1983 masks record extremes that individual producers experienced. Prospects for 1984 continue to be uncertain. Favorable prices for feed grain and soybeans in early 1984, coupled with relatively ineffective government acreage controls, raise the prospect of a price depressing abundance at harvest-time and a rebuilding of surpluses. Prices will be extremely sensitive to growing conditions. Production expenses, which moderated in 1983, should resume their upward trend. A carryover of PIK program income will tend to distort net farm income by as much as $8 billion. Overall net farm income could reach $29 to $34 billion, up from $23 billion in 1983.

Farm assets are expected to rise 1 to 5 percent, and total debt should remain constant or decline slightly—resulting in an expected increase in farm equity from 1 to 7 percent. Short-term debt is expected to rise sharply as farmers return more land to production, while real estate debt should increase moderately. The end of 1984 will likely see the strengthening of most favorable trends started in 1983, with the asset value of crops, livestock, and real estate leading the way. For the longer term, improvements in farm income prospects are essential to the financial health of American agriculture.

Government outlays in FmHA programs dropped from $8.0 billion in 1981 to $4.0 billion in 1982 to $3.0 billion in 1983, reflecting Administration efforts to make FmHA a lender of last resort. Despite the severe drought, only $506 million in emergency disaster loans were made in 1983. This figure does not reflect the full impact of the drought because of administrative lags and normal delays in filing. Emergency loan activity in 1984 should approach budgeted levels of $1.54 billion. FmHA operating loan requests increased 35 percent in 1983 and demand for farm ownership loans increased 29 percent. Commodity Credit Corporation (CCC) loans tapered off in 1983 as farmers increased redemptions and PIK distributions were made. CCC loans are expected to be a less significant factor in 1984 than during the 1981–83 period.

The dollar value of agricultural exports is expected to rise moderately, but the volume of exports is likely to decrease. Agricultural exports problems are not likely to be sufficiently resolved in 1984 to help U.S. producers.

The overall strength of the Farm Credit System remains sound, though some borrowers and PCAs are experiencing severe financial stress. The experience of failed and weakened PCAs in 1983 has demonstrated the need for strong supervision of System institutions by FCA and the district banks and intensive loan servicing by associations.

System Supervision and Loan Quality

Loan losses in the Farm Credit System were up substantially to $250.7 million in 1983. Estimated losses for the full year are put at $250 million. Such losses constitute a small percentage of loans outstanding, with land bank charge-offs representing .016 percent of loans outstanding, PCA and FICB losses representing 1.22 percent of loans outstanding, and BC gains representing .031 percent of loans outstanding. FCA's quarterly credit monitoring, which began in 1982, surveys System banks and gathers data on loan performance. Reports indicate continued deterioration in FLB and PCA loan portfolios, but at a slower pace than in 1982. As of December 31, 1983, .3 percent of FLB loans and 2.6 percent of PCA loans had some amount past due more that 90 days. A strong policy of forbearance, reaffirmed by the Federal Farm Credit Board in February 1983, continues to emphasize working with System borrowers who are making a good faith effort and have a reasonable prospect for financial recovery. Financial stress on PCAs in 1983 has led to a number of mergers, 2 voluntary liquidations, and 2 PCAs being placed in receivership. FCA began introducing the first phases of a consolidated reporting system in 1983 to improve data-gathering capabilities while reducing overall costs.

System Funding

Farm Credit System institutions operate on a self-sustaining basis without expenditure of taxpayer dollars or government guarantees. System institutions pay money market rates to obtain loan funds through the sale of securities in the U.S. financial markets. System borrowers pay variable interest rates based on the average costs of bonds outstanding, operating costs, and provision for reserves. The Federal land banks closed the year charging an average interest rate of 11.44 percent. At the end of the third quarter, production credit association rates averaged 11.78 percent. Banks for cooperatives were charging borrowers an average interest rate of 10.38 percent on seasonal loans and 11.69 percent on longer term loans as of November 1

System Loan Volume

The Farm Credit System had $80.5 billion in loans outstanding as of December 31, 1983, an increase of .4 percent from the same date a year earlier. FLB loans outstanding on that date reached $51.1 billion, a 1.4 percent increase. PCA loans outstanding were down 6.8 percent to $19.3 billion. BC loans outstanding were up to $9.3 billion, an increase of 10.7 percent from a year earlier. The Farm Credit System share of farm debt outstanding in 1983 is expected to be 31.6 percent of total farm debt, slightly higher than a year ago.

International Agricultural Trade Financing and Cooperative Activities

As of December 31, 1983, banks for cooperatives have extended $647 million in international credit to support export sales of U.S. farmer cooperatives. In 1984, district BCs will establish their own international financing departments. Even though 1984 is expected to be a year of slow growth for agricultural exports, BCs have estimated a doubling of international assets over the next twelve months. FCA encourages this growth and will continue to monitor the credit extended to ensure that it is done in a prudent manner.

Initiatives

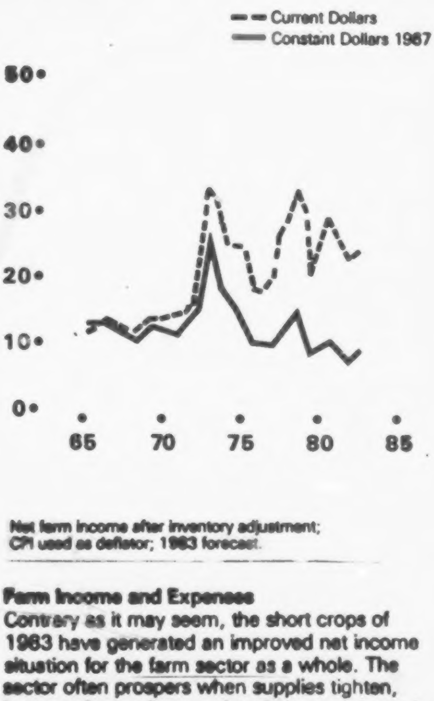
Important policy initiativas of the Farm Credit Administration and Farm Credit System during 1983 include: launching a major study (Project 1995) of the future agricultural credit environment, continuing to develop and redefine the relationship of the System and FCA as envisioned by the Farm Credit Act of 1971, and improving coordination of System banks and associations to ensure quality service to existing and future borrowers.

Agricultural Conditions

Farm program changes introduced last January were followed by a severe drought, with the result that conditions in the farm economy are now much different from what had appeared solidified just a year ago. As dramatic as the reversal in stocks and prices of feedstuffs has been, 1984 could easily see a return to burdensome stock levels. Record feed grain acreages are likely to return, subsoil moisture has been largely recharged, domestic livestock producers will be even more cautious in their production decisions, and world agricultural trade has little prospect for rapid expansion. Major variables shaping the crop price outlook for 1984 are flashing a caution signal: favorable prices early in the year coupled with relatively ineffective government acreage control programs raise the prospect of a price-depressing abundance at harvest time. The combined impact of the payment-in-kind (PIK) program and the severe drought experienced in much of the nation during the past year will continue to be felt in both the crop and livestock sectors during 1984. The 1983/84 ending stocks are expected to be greatly reduced for several major crops, and farm prices for most program crops should remain well above support levels for much of the current marketing year. During the major part of the growing season through harvest, it is anticipated that prices will be extremely sensitive to new crop growing conditions.

For livestock, the demand outlook is brighter than it has been in more than 3 years. On the livestock supply side, recent breeding stock adjustments, for hogs in particular, appear to be setting the stage for prices in the meat and poultry complex to improve by midyear. Complicating this situation is the degree and timing of expected dairy herd liquidations in response to the new paid milk diversion program. Nevertheless, the direction of feed grain prices after midyear will be the key factor in setting the tone for livestock producers. The trend in feed costs during the third quarter will likely determine whether producers begin to slowly expand their herds or resume liquidation. The odds seem to favor large crops, improved livestock profitability, and eventual moves toward breeding herd expansion.

Net Farm Income
$Billions



Net farm income after inventory adjustment; CPI used as deflator; 1983 forecast.

Farm Income and Expenses

Contrary as it may seem, the short crops of 1983 have generated an improved net income situation for the farm sector as a whole. The sector often prospers when supplies tighten, because farm prices tend to rise proportionately more than production drops. This yields a higher level of gross income than would exist otherwise. Benefits, of course, are not shared uniformly—certain geographic areas tend to gain at the expense of others, and livestock producers are often forced into unplanned adjustments. The two factors which created the crop shortages also played an important role in accentuating the diversity in income performance among farmers in 1983: widespread but erratically distributed drought conditions and participation (or nonparticipation) in the payment-in-kind program. These two factors have altered the traditional regionally differentiated pattern of incomes that would have been expected from a short crop. High participation in the 1983 farm programs is currently mitigating the regional differences but amplifying the income extremes among neighboring farmers.

As 1983 was drawing to a close, each of the major net farm income measures was expected to register an increase over calendar year 1982. Estimates of the increase in total net income range from a small gain to as much as $8 billion. The projected gains come mainly from a drop in cash expenses associated with the acreage reduction programs and from a large drawdown of crop inventories. Total cash income from farming should grow by $3 to $4 billion with a sharp increase in government payments (mainly PIK) offsetting a small drop in cash receipts from new crop marketings.

Many years of upward pressure on farm production expenses finally ceased during 1983. A result of the acreage reduction program, the benefits were entirely with the crop sector; livestock producers faced sharply higher feed expenses. Uses of the major manufactured inputs—fertilizers, fuel and pesticides—are estimated to have dropped from 9 to 14 percent. These large declines were the primary cause of the first decrease in overall production expenses since 1953. Price pressures were moderate for a second consecutive year largely because of the low level of inflation in the general economy and because of the reduced demand for farm inputs. Because of a substantial reduction in capital expenditures the last 2 years, depreciation expenses in the income accounts are expected to drop 1 to 3 percent in 1983—the first such drop since 1946.

The debt-service burdens and cost of credit have been on the rise for several decades, with the most dramatic increases occurring over the past decade. During 1982, interest accounted for $21 billion or 18.4 percent of the $113.8 billion in cash expenses, and nearly $22 billion or 15.6 percent of the $140.1 billion in total expenses. Ten years ago, interest expenses were about $4.5 billion and accounted for 8 percent of cash expenses and 7.2 percent of total production expenses.

Heavily indebted farmers were among the first to feel the cash flow squeeze during the past several years. Indeed, an $8.5 billion increase in interest outlays accounts for fully half the overall increase in cash expenses from 1979 to 1982. Were it not for the rise in interest expenses, net cash income would have risen 20 percent between 1979 and 1982, rather than dipping as it did.

The Outlook for 1984

The 1984 outlook for farm income is mixed. If 1983 had materialized as expected, the likely course for 1984 would be a large though distorted gain in total net income, but with potentially sizable declines in realized net cash income. One major unknown involved in year-end farm income forecasts is how much of the new crop is sold in the current year versus being held for the next year. However, the PIK program created a second and perhaps more critical unknown at the end of 1983. When farmers elect to receive their PIK commodities will significantly influence the eventual levels of the various net income measures for both 1983 and 1984. Both of these unknowns affect the net farm income measures differently, thus giving rise to the mixed expectations for 1984. The current forecasts assume a very large drawdown of crop inventories during 1983, a sizable postponement of PIK into 1984, and crop inventories rebuilding during 1984.

The total net series, which attempts to measure how much income is generated in a given period, is being distorted by an unusually large amount of Government payments. As much as $4 billion in income generated through farmers' participation in the 1983 PIK program will be credited as being generated during 1984. This translates into an $8 billion distortion between 1983 and 1984; net income ranges forecasted by USDA at $22 to $24 billion in 1983 and $29 to $34 billion in 1984 would be $26 to $28 billion and $25 to $30 billion, respectively. This distortion does not alter the other two net series, which measure how much income farmers elect to receive or realize during a given period.

Production expenses will rebound sharply in 1984 as farmers return much of their 1983 land to field crops and as input prices move up somewhat faster in concert with the rate of inflation. Farmers are expected to spend 15 to 20 percent more than in 1983 for pesticides, fertilizers, farm machinery (including repairs), and energy. Typically, these items account for around one-third of total expenditures for crop and livestock production. Farm demand for pesticides, especially herbicides, will climb substantially as row-crop production returns to what, in many instances, was weed-infested conservation acres. A recovery in machinery sales would cause depreciation in 1984 to resume its upward course. The projected increase in machinery sales assumes favorable commodity prices, a return of more normal weather, moderate interest rates, and a substantial rebound in planted acres.

Interest expense, also a moderating force on 1983 production expenses, is likely to resume an upward trend in 1984. Nonreal estate interest expenses are expected to decline about 5 to 7 percent in 1983 from $11.5 billion in 1982, due to a decline in the average interest rate. Interest on real estate debt grew moderately during 1983, with little change in the average interest rate on such debt and a somewhat higher level of outstandings during the year. The improved income situation going into 1984 and the need to finance larger crop acreages should cause increases in the average debt outstanding during 1984 compared with 1983.

U.S. Agricultural Exports

Since 1980 and 1981, when U.S. agricultural exports peaked in volume and value, export market performance has declined steadily. World trade in agricultural commodities has generally shrunk over the same period, but the U.S. share of world exports has diminished as well.

Many influences have combined to produce this effect. The strength of the U.S. dollar relative to the currencies of trading partners remains at very high levels; large external debt burdens carried by many developing countries have reduced their capacity to import, a factor which has been aggravated by worldwide recession; and generally favorable weather in recent years has cut the necessity to import food on a large scale. Additionally, many other countries adopted policies leading to expansion of their own agricultural production and export potential. Beyond following their own policy signals, producers in competing countries observed those being given to American producers. During the past several years, U.S. program loan rates, the reserve mechanism and the strong American dollar have all served to provide reasonably effective and attractive price floors for foreign competitors, who have responded by increasing their production potential.

The dollar value of agricultural exports is expected to rise moderately in 1984, while physical export volumes are likely to decline. The recovery in the U.S. economy should help stimulate economic growth in some other countries, but many nations that buy agricultural products from the U.S. continue to be plagued by huge debt servicing requirements and weakened currencies. These problems are not likely to be sufficiently resolved in 1984 to be of significant benefit to U.S. producers.

The developed countries of Western Europe, together with Canada and Japan, have traditionally been the primary purchasers of U.S. agricultural products. That importance will continue for the foreseeable future. Recovery in the economies of these countries is a major reason for the anticipated strength of trade with other Organization for Economic Cooperation and Development (OECD) nations. Growth of export trade with this group of countries has its limitations, however. Among the most important of these limitations is the rapidly increasing production within the European Community (EC); yet, the impressive increase in EC agricultural production has been achieved at substantial cost, a cost which has become increasingly burdensome for the economies of member nations. Recent proposals for reform of the Common Agricultural Policy would have the effect of restricting import volumes of several categories of agricultural products important to the United States. Should these proposals be adopted, exports to the EC would be adversely affected, not only in 1984 but in subsequent years as well.

Farm Assets

Eroding asset values and rising debt were the damaging trends observable when comparing the January 1, 1983, farm sector balance sheet to that of a year earlier. In 1983, however, major economic forces such as the 1983 government programs, Mother Nature, and the Federal Reserve combined to provide a favorable trend reversal. As 1983 drew to a close, the outlook for the January 1, 1984, statement was for total assets to rise 1 to 5 percent and for total debt to remain constant or decline 2 percent; thus, equity was expected to rise 1 to 7 percent.

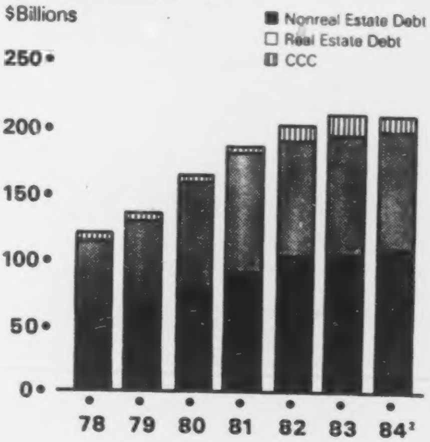
A closer look at the January 1, 1984, estimates for asset values shows that real estate, accounting for 75 percent of all assets, is expected to have risen 2 to 4 percent. The 1983 increase would recoup some but not all of the loss experienced over the last 2 years. Factors contributing to the anticipated rise include improved farm earnings and interest rates lower than the year before.

The nonreal estate asset accounts (livestock and poultry, machinery, crops, household equipment, and financial assets) are expected to have increased 5 to 7 percent during 1983, although these may have trended down slightly at yearend. The outcome will depend to a high degree on the marketing of the PIK entitlements.

Farm Debt and Equity

Farm sector liabilities grew at double-digit compound rates during the latter half of the 1970s. There is the prospect, however, that farm debt outstanding on January 1, 1984, may have declined for the first time since 1945, mostly because of a major reduction in CCC debt outstanding. The 1983 PIK program and the drought substantially reduced the massive amount of grain under loan to the CCC. Also, the high commodity prices in the last half of 1983 triggered the release of uncommitted feedgrains from the farmer-held reserve programs and made the entrance of grains under the CCC loan levels unattractive. Less dramatically, farm real estate debt is forecast to increase 2 to 4 percent. This is about equal to last year's change, but well below the 10- to 13-percent increase observed in 1980 and 1981.

Farm Debt Outstanding—Real Estate Debt and Nonreal Estate Debt[1]

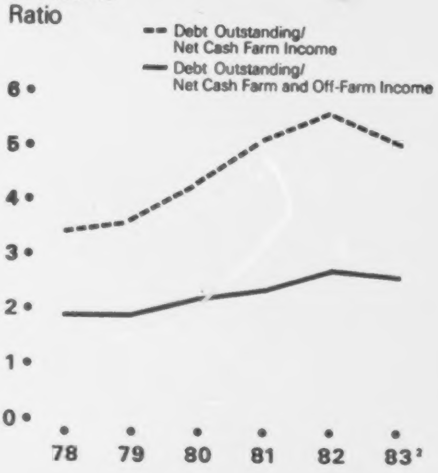


[1] As of January 1.
[2] Preliminary.

1984 Balance Sheet Changes

The end of 1984 should see the strengthening of most of the favorable trends started in 1983. The value of total assets generally should continue to expand, with the value of crops,

Ratio of Farm Debt Outstanding to Income[1]



[1] Debt outstanding beginning of year, including farm household.
[2] Preliminary.

livestock, and real estate leading the way. Factors that are needed to help sustain the increases include continued expansion of the recovery to bring about greater demand for farm sector products, as well as a reasonably stable farm income outlook. Short-term debt will increase sharply as crop farmers return most of their land to production again. Real estate debt will be up moderately from 1983 levels, continuing the 2-year trend of moderate real estate debt increases, compared to the double-digit rates of the late 1970s.

The factors influencing farm-sector assets and liabilities will produce the second consecutive year of proprietor equity increases. This prospective increase should show that farm sector adjustment to a sounder financial base is taking place.

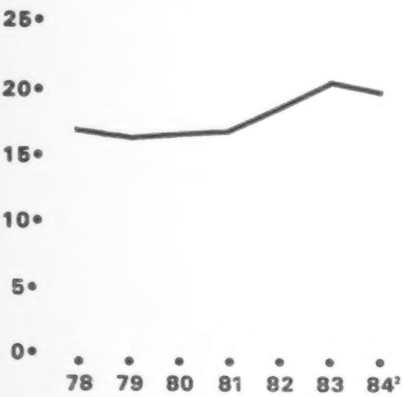
Government Loans and Payment

Farmers Home Administration (FmHA) lending activity in its four major farm programs fell considerably short of budget levels in fiscal 1983. This occurred primarily because of an overestimate of emergency disaster (EM) lending and the continued impoundment of funds in the economic emergency (EE) program. Overall reductions in FmHA lending activity reflect the intent of the Administration to reinforce FmHA's original mission as a lender of last resort and the gradual replacement of disaster loans with crop insurance. Within the four farmer programs, fiscal 1983 outlays were $3.0 billion, significantly lower than the $4.0 billion obligated in 1982 and $8.0 billion in 1981. These four programs constitute a little more than 46 percent of FmHA's total 1983 direct and guaranteed loan volume of $6.3 billion.

The overestimate in the emergency disaster program has occurred because of the high degree of difficulty in projecting the impact weather conditions will have on crop output. Despite the severe drought that affected widespread sections of the country, only $566 million in EM funds were loaned in 1983 due to the administrative lags involved in declaring counties disaster areas. During fiscal 1983, FmHA handled 14,605 requests for EM loans, of which 10,095 or 69 percent were approved. Emergency loan applications following a drought usually are filed well into the spring of the next crop season. Therefore, FmHA expects EM loan activity to approach the budgeted level of $1.54 billion in 1984. If the method of determining qualifications for disaster loans is changed from a county designation to individual designation, and there is currently much pressure to do so, FmHA officials estimate that loan volume could reach nearly $3 billion in 1984.

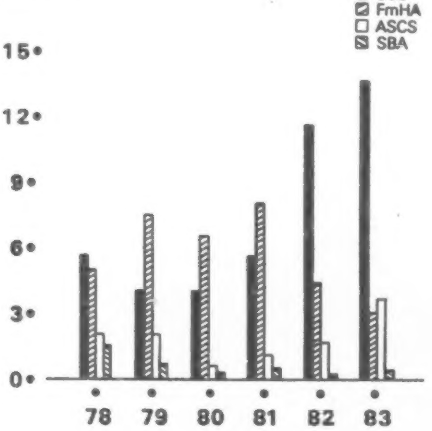
Although $600 million in economic emergency funds were appropriated by Congress in 1982 and 1983, no EE loans were made during these years. EE loans are designed to help farmers overcome economic hardship caused by credit scarcity or cost-price squeezes beyond their control. As a result of litigation, the Secretary is required to make $600 million in EE funds available through the end of FY 1984.

Debt/Asset Ratio of Farm Sector[1]
Percent



[1] As of January 1.
[2] Preliminary.

Total Government Agricultural Loans Made and Direct Payments
$Billions



Demand for FmHA operating loans (OL) increased considerably in 1983. At the beginning of the fiscal year, $1.46 billion in OL loans was appropriated for farmers and ranchers lacking other sources of production credit. During the year, FmHA received 85,592 requests for OL loans, a 35-percent increase from the 63,636 requested in 1982. Total loans approved in 1983 amounted to 59,579 compared to 42,875 in 1982, a 39-percent increase in the number of borrowers served. Because of this unanticipated surge in lending activity, FmHA exhausted its lending authority for OL loans 8 months into the fiscal year. In order to accommodate borrowers the balance of the year, $325 million in unencumbered funds from other FmHA loan programs was transferred to the OL program and nearly all the $1.785 billion budgeted was obligated by yearend.

Demand for FmHA farm ownership loans (FO) also increased substantially, increasing by 29 percent from 28,207 to 36,455. Of the farmers requesting loans, 10,660 were approved and/or granted loans. Additional funds were transferred to the FO program late in the fiscal year. Total obligations amounted to $730 million, exceeding the initial appropriation by $30 million. The 1984 budget allows for $625 million in FO loans, slightly lower than 1983 loan volume.

Farm Programs

The large gains in Commodity Credit Corporation (CCC) loans outstanding during most of 1982 and early this year reflected burdensome grain stocks, low commodity prices, and liberalized rules for putting grain directly into the farmer-owned grain reserve. Since March, however, CCC loans outstanding have tapered off as farmers increased their redemption rates and as PIK distributions were made to farmers. By the end of 1983, CCC loans outstanding were believed to be close to $10 billion—as of August 31, the figure was $14.4 billion.

As a source of short-term financing, CCC loans will continue to be an important source of credit in 1984. However, after holding center stage for the last 2 years, CCC's role in the year ahead is expected to be far less significant than it was in the 1981–83 period. CCC will also continue to play an important role in 1984 as a residual market for excess grain. But its prominence will be less apparent because of the massive liquidations of grain stocks—reflecting the 1983 drought and the PIK program—and also because of the prospects for lower farmer-participation rates in the 1984 commodity programs.

The factors that will largely determine CCC loan activity in the year ahead are: (1) the CCC interest rate relative to the rates of other lenders; (2) future price trends for those farm commodities eligible for CCC loans; and (3) the base acreage that is ultimately enrolled in the 1984 commodity programs.

A continuation of strong prices into the sign up period for 1984 commodity programs could discourage participation and invite a return to all-out production, thereby setting the stage for bumper crops and low prices later in the year, given normal growing conditions. As a result, many farmers—especially those in a vulnerable financial position—may view the 1984 commodity programs as a source of price protection, although forward sales may have offered a better solution.

How farmers ultimately respond to the new programs is still a big unknown for 1984. Most of the evidence points to a drop in participation levels, which means that CCC loan activity for the new crops will be down rather sharply. Hence, total loans outstanding likely will decline seasonally for the next several months. It is not immediately obvious what will happen to outstandings during the second half of 1984, but if grain prices remain strong, CCC loans outstanding at yearend probably will not be large.

Farm Credit System Conditions

While PCAs sustained record losses in 1983 and face the prospect of further losses in 1984, the basic financial strength of the Farm Credit System will allow these losses to be handled without increased risk to investors. All creditworthy farmers, ranchers, and fishermen will be able to obtain loans from System institutions.

The overall financial health of the Farm Credit System remains sound despite obvious financial stress being experienced by a number of individual institutions. In 1983, two PCAs went into voluntary liquidation, two were placed in receivership, and one PCA has challenged a determination by FCA that it is insolvent and its stock is impaired. In addition, FCA projects that between 6 and 10 PCAs are in critical financial condition, which may lead to merger or liquidation. Altogether, there were a total of 18 PCA mergers in 1983, some of which involved PCAs in serious financial difficulty. Of course, not all mergers are to prevent failure. A number of PCAs merged to improve efficiency and effectiveness of their services to farmers.

Besides mergers and liquidations, the System has other options for aiding associations that are having difficulty. Loss-sharing agreements can provide some relief. These funds are obtained by a contribution from other PCAs of up to one-half percent of loan volume on an annual basis. In addition, FICBs may, in certain circumstances, inject capital in an association for short-term relief.

The experience of failed and weakened PCAs in 1983 has demonstrated the need for strong supervision by FCA and the district banks, intensive loan servicing on the part of the associations, and cooperation of the borrower. At the same time the Farm Credit System is committed to staying with borrowers as long as there is a reasonable chance that they will be able to regain a sound economic operation. To some extent, the losses being absorbed by the System are a measure of the System's commitment to forbearance.

For the longer term, an improvement in farm income prospects is essential to the economic health of farmers and farm credit from whatever source. A long period of weak prices and declining land values has had a significant impact. Improved prices in 1983, while helping some borrowers, have been partially offset by drought losses to other borrowers. The PIK program and other Federal programs have had an ameliorating effect on farm difficulties and helped many farmers through this prolonged period of adverse conditions. In the remaining sections of this report, we will cover the situation facing the Farm Credit System in more detail.

Farm Sector Income and Cash Flow Statement
1979–1983[1]
$Billions

Farm Income Sources	1979	1980	1981	1982	1983[4]
1. Crop receipts	63.2	72.7	73.1	74.4	70 to 74
2. Livestock receipts	68.6	67.8	69.2	70.2	69 to 71
3. Government payments	1.4	1.3	1.9	3.5	8 to 10
4. Other cash income	1.6	1.6	2.0	2.1	2
5. Total cash income	134.7	143.4	146.2	150.1	153 to 155
6. Nonmoney income	10.7	12.1	13.3	13.9	14 to 15
7. Value of inventory change	4.9	-5.3	7.6	-1.9	-6 to -8
8. Total gross income	150.4	150.1	167.1	162.2	160 to 162
Production Expenses					
9. Cash expenses	97.3	105.3	111.5	113.8	109 to 111
10. Total expenses	118.1	128.6	137.0	140.1	135 to 137
Income Measures					
11. Net cash income (5-9)[2]	37.4	38.1	34.7	36.3	42 to 45
12. Realized net (8-7-10)[2]	27.3	26.8	22.4	23.9	30 to 34
13. Total net (8-10)[2]	32.3	21.5	30.1	22.1	24 to 26
14. Off-farm income	35,3	37.7	39.9	39.4	40 to 42
Other Sources and Uses of Funds					
15. Change in real estate loans	13.0	9.4	9.3	3.7	2 to 4
16. Change in nonreal estate loans	10.9	5.9	6.2	3.1	-5 to -2
17. Rental income	5.6	5.6	5.7	5.0	4 to 6
18. Gross cash flow (11+15+16+17)[3]	66.9	58.9	55.8	48.0	47 to 52
19. Capital expenditures	19.9	18.0	16.8	13.9	12 to 16
20. Net cash flow (18–19)[2]	47.0	40.9	39.0	34.1	34 to 37

[1] Adapted from page 12 of USDA's August 1983 *Agricultural Outlook*.

[2] Figures obtained by subtracting enumerated items above.

[3] Figures obtained by adding enumerated items above.

[4] Forecast

Farm Credit System Examination, Supervision and Loan Quality

The Federal land banks and Federal intermediate credit banks perform credit reviews of associations in their districts. These reviews classify loans and evaluate credit administration, loan servicing, and the operational effectiveness of each association on an annual basis. FCA comprehensively reviews a select number of associations in each district during its annual examination of each bank to ascertain the adequacy of the bank reviews and particularly the credit classifications the bank has assigned to the association loan portfolio. Banks for cooperatives loans are classified by FCA as part of the routine examination process. System loans are classified into four quality ranges: (1) acceptable; (2) problem; (3) vulnerable; or (4) loss.

Acceptable Loans Loans of the highest quality ranging down to and including those having significant credit weaknesses.

Problem Loans	Loans having serious credit weaknesses requring more than normal supervision, but believed to be collectible in full.
Vulnerable Loans	High risk loans still considered collectible but involving probability of loss in the event repayment from available sources does not materialize.
Loss Loans	Loans on which all or any portion is deemed uncollectible. These loans represent cases in which it appears that all or a portion of the borrower's total indebtedness, including any previous partial charge-off, will not be collected in full.

Examination and Supervisory Process

The Farm Credit Administration (FCA) is accountable to Congress for the examination and supervision of all institutions comprising the Farm Credit System. The Farm Credit Act of 1971, as amended, sets forth the statutory framework for FCA examination and supervisory activities.

The Farm Credit System is designed to ensure that a continuing source of credit is available and responsive to the needs of all creditworthy farmers, ranchers, commercial fishermen and their cooperatives. To accomplish this objective, as mandated by Congress, FCA examination and supervision focuses attention on the System maintaining financially viable, well-managed, and well-directed institutions. By promoting an effective, efficient, and sound agricultural credit system, such examination and supervision helps to protect the respective interests of existing and future borrowers as well as investors in Farm Credit System securities and the general public.

FCA's responsibilities are met through annual programs of examination and supervision of each Farm Credit System bank and service organization. Each Farm Credit bank undergoes an annual examination by FCA consisting of:

1. An audit of the bank's financial records in accordance with generally accepted auditing standards.
2. Such tests as deemed necessary to evaluate the quality of performance by bank boards and management.
3. Evaluation of major program areas for compliance with the law, FCA Regulations, and good business practice.

These annual reviews are tailored to internal and external factors affecting the current and future operations of the respective Farm Credit System institutions. Special emphasis is placed on maintaining well-directed and well-managed institutions. FCA efforts also place special emphasis on verifying the adequacy of bank financial records, verifying the accuracy of bank financial reporting, testing the quality of System loan assets, and ensuring that borrowers' credit and credit-related needs are being met appropriately.

FCA's supervision concentrates heavily on the performance of the district board in setting policy direction for the banks and on the manner and extent to which the board holds management accountable for performance. FCA examination and supervisory staffs prepare an annual written report to the board and management of each bank. These reports contain the findings of the examination, the conclusions reached by FCA as a result of the examination, and any recommendations for improving bank performance. The evaluation contained in these reports, together with the responses of the bank board and management, determines the level of supervision the bank will receive.

FCA supervision places major emphasis on appropriate accountability for performance at each level of the System. With this concept of supervision, accountability for performance flows from association staff to association

Net Loan Losses
$ Thousands

	1981		1982		1983	
	Amount of Net Losses (Gains)	% of Loans Outstanding	Amount of Net Losses	% of Loans Outstanding	Amount of Net Losses (Gains)	% of Loans Outstanding
BCs	$ 12,203	.130	$ 10,579	.074	$ (2,864)	.031
FICBs/PCAs	44,198	.200	160,435	.328	245,337	1.220
FLBs/FLBAs	781	.002	1,543	.002	8,194	.016

management, from association management to association boards, from association boards to bank staff, from bank staff to bank management, from bank management to bank boards, from bank boards to FCA, and finally, from FCA to Congress.

FCA supervises the System on a "differential" basis. The degree of supervision is directly related to the past performance of a Farm Credit System institution and that institution's capacity and commitment to carry out sound business practices in meeting present or anticipated operating situations. Where weakness limits the positive performance of an institution, FCA seeks to correct or eliminate the cause of the weakness. FCA is committed to ensuring that Farm Credit System institutions are financially sound and have the capacity to carry out their mission of providing borrower credit and credit-related needs at the lowest cost possible. Decentralization of Farm Credit System operations increasingly means that review and supervision of associations is delegated to the district banks, with FCA, in turn, examining and supervising the district banks. In most cases, therefore, the district bank will be the institution discovering problems in local associations and working with them to improve management and credit administration. However, when serious difficulties arise affecting the quality of credit service to borrowers, FCA assumes a more direct role in keeping with its responsibility to preserve the financial and operational integrity of System institutions.

During this past year, FCA has concentrated substantial effort in dealing with the problems of financially troubled PCAs. These are primarily PCAs that have experienced serious loan losses or are carrying a significant amount of nonperforming assets in their loan portfolios. Such financially stressed PCAs, as a percentage of the total number of PCAs, are few. They are not confined geographically to any one part of the country, but have surfaced in several districts. Some common factors associated with these troubled PCAs include lending to highly leveraged borrowers, borrower exposure to several successive years of depressed agricultural or aquatic incomes, inadequate PCA board direction, inadequate PCA management, and inadequate bank supervision.

Among the remedies available for dealing with financially troubled PCAs are the following: merger; consolidation; transfer of territory; loss-sharing agreement activation; capital infusion; FICB purchase of high risk PCA assets; and, when no other viable alternative is available, either voluntary or involuntary liquidation. The specific course of action taken depends on the probable future financial and operational viability of the PCA, the degree of future financial risk to the PCA's stockholders and to other Farm Credit System institutions, and the effect the action will have on the availability and quality of credit service to present and future creditworthy borrowers of the territory.

System Loan Losses

Loan losses represent the final result of borrower financial difficulty that could not be overcome through loan servicing. These figures represent a loss to the System and its borrower-stockholders. As of December 31, 1983, the amount of net loan losses increased to $250.7 million as compared to $172.6 million for the year ended December 31, 1982. Nevertheless, loan losses remain at a reasonable level compared to loans outstanding.

Federal land bank net loan losses for the year ended December 31, 1983, were $8.2 million, a figure representing .016 percent of loans outstanding. PCAs and FICBs realized $245.3 million in net losses on $20.1 billion in loans outstanding, or 1.22 percent for the year ended December 31, 1983. This was an increase from the previous year losses that represented .75 percent of loans outstanding. For the year ended December 31, 1983, the banks for cooperatives had gains of approximately $2.9 million, which was .031 percent of loans outstanding.

Credit Monitoring

In 1982, prospects for a third consecutive year of depressed farm prices, low farm income, and historically high interest rates heightened concern for the repayment capabilities of farm borrowers. In early 1982, the Farm Credit Administration began a quarterly credit monitoring program. Information is gathered on aspects of financial stress in agriculture, and more specifically on repayment prospects of Farm Credit System borrowers. Such information, which is collected by survey, is reported in varying degrees to the presidents of the district banks and to appropriate Members of Congress and the press. Protection is given to proprietary information throughout the process.

In 1983, in the face of long-term farm sector financial stress, the performance of FLB and PCA loans showed continued deterioration, but at a slower pace than was experienced in 1982. PCA collections for the first 9 months of 1983 stood at 80.3 percent of the 1978–80 average rate, down from 82.2 percent a year earlier and 91.5 for the same period in 1981. FLB repayment rates show an opposite pattern, rising to 87.6 percent of the 1978–80 average for the first 9 months of 1983 from 70.9 percent a year earlier and 66.7 percent for the first 9 months of 1981. FLB experience reflects both a slowdown in the volume of new farm mortgages and the effort to bring debt service requirements into line with repayment capacity.

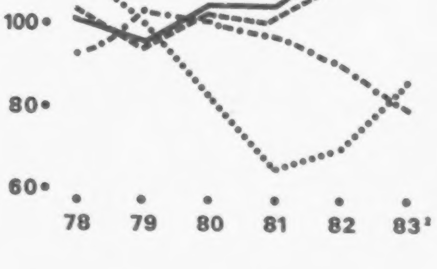
The percentage of FLB loan funds used to refinance nonreal estate debt stabilized during 1983 and shows signs of returning to more normal levels. This also suggests a better alignment of debt servicing requirements with repayment capacity. During the third quarter of 1983, 12.7 percent of FLB farm loan funds distributed were used for this purpose compared with 16.0 percent in the third quarter of 1982 and 14.7 percent during the same period of 1981.

The percentage of PCA loan funds used to renew previously existing PCA debt continues an upward trend. Some 25.3 percent of PCA loan funds disbursed during the third quarter of 1983 represent renewals, compared to 24.4 percent in the third quarter of 1982 and 22.9 percent in the third quarter of 1981.

On December 31, 1983, 7,767 FLB loans had some amount past due 90 days or more, 1.17 percent of the total number of loans outstanding. PCAs in 11 of 12 Farm Credit districts had 4,122 loans with some amount past due 90 days or more, 1.21 percent of the number of members with loans outstanding in those districts.

On December 31, 1983, 2,778 FLB loans were in the process of liquidation. The amount owed on these loans was $572.4 million, representing 1.12 percent of the total amount owed to FLBs. A year earlier, 0.27 percent of the number of FLB loans, representing .64 percent of the amount owed to FLBs, were in the process of liquidation.

FCS Renewals, Refinancings, Collections and Repayments[1]
Percent



[1] 1978—80 Average rates = 100.
[2] First 9 months.

PCA loans in process of liquidation totalled $471.1 million on December 31, 1983, which amounted to 2.4 percent of the amount of PCA loans outstanding. A year ago, $356.2 million in PCA loans representing 1.7 percent of the amount outstanding was in process of liquidation.

The value of properties acquired by FLBs stood at $119.3 million on December 31, 1983, up from $31.0 million a year earlier. FLB loan losses rose from $0.7 million to $5.4 million from September 30, 1982, to the same date in 1983.

Property acquired by PCAs rose in value from $94.4 million on December 31, 1982, to $155.3 million on the same date in 1983. PCA loan losses for the year rose from $159.2 million in 1982 to $238.0 million in 1983.

Forbearance

Although there was a significant increase in aggregate farm income in 1983, the gain was unevenly distributed among agricultural producers. Severe drought afflicted many farmers and ranchers and aggravated the financial stress brought on by years of depressed prices. Other producers did not share in the gain because they did not participate in the PIK program, were adversely affected by higher feed costs, or because their production was concentrated in commodities that did not share in the price recovery or PIK program. Despite aggregate farm income gains for 1983, financial stress remains significant for many producers.

The causes of financial stress should not be confused with its symptoms. The underlying cause of financial stress in agriculture is the imbalance of supply and demand that forces farm prices down to or below the cost of production. While a price-cost squeeze cuts the profits of some farmers, it forces others to suffer losses. The longer the squeeze continues, the more farmers are forced to liquidate all or part of their operations.

Lenders are forced to review loans to financially stressed borrowers to choose between continued forbearance and initiating collection actions that may ultimately lead to foreclosure. Each succeeding year of financial stress erodes not only the borrower's current financial condition but also his ability to recover. Financial stress erodes borrower equity, and adequate equity is essential to maintaining a viable financial structure.

Foreclosure should be a last resort for any commercial lender, but particularly for a lender owned by its member-borrowers. A strong forbearance policy continues to guide the lending operations of the Farm Credit System. This policy was specifically reaffirmed by the Federal Farm Credit Board in February, 1983, when it adopted a statement recognizing the serious plight of many in our agricultural community caught in a farm income squeeze beyond their control. (The full text of the Board's statement appears in the Appendix.) Forbearance means working with borrowers while considering, on a case-by-case basis, whether to renew, reschedule, defer payment, reamortize or otherwise continue credit for borrowers experiencing financial stress.

The key factor in the decision to forbear is whether there are reasonable prospects for financial recovery, especially in terms of the borrower's ability to realize net income from agricultural operations under current and forseeable conditions. Forbearance is appropriate when the profitability of farm operations is temporarily low or negative. Unfortunately, there are situations where there is no reasonable prospect of financial recovery and where continuation of credit at current levels will simply increase losses to the farmer at the expense of his or her remaining equity.

The limits of the ability of even a borrower-owned lender to absorb loan losses and carry nonperforming loans must be recognized. In a lending cooperative, the cost of forbearance is ultimately borne by those borrowers who keep their loans current and continue to finance their operations through their local association. Loan losses and the cost of carrying nonperforming loans ultimately translate into higher interest rates borne by continuing member-borrowers.

1983 Special Supervisory Actions

As part of its ongoing supervision of the Farm Credit System during 1983, FCA was heavily involved in special activities to enhance the level of credit service available to creditworthy agricultural and aquatic producers and their cooperatives. Such special activities included both preventative and corrective supervisory measures.

Although corrective supervisory activities have captured more public attention on a day-to-day basis, FCA has been carrying out its supervisory functions to:

1. Identify potential problems and help banks and associations before corrective supervisory actions must be taken.
2. Initiate efforts to strengthen the ability of System institutions to cope with financial stress.
3. Improve overall FCA and System operations.

For example, in 1983 FCA:

Devoted considerable effort to facilitating voluntary territorial realignments of System institutions consistent with the needs and intents of the respective district boards;

Coordinated the System's dialogue with FmHA to formulate a revised Memorandum of Understanding;

Instituted improved data collection systems; and

Established revised regulations pertaining to the standards of conduct of directors, employees, and agents of the System.

The Farm Credit Administration in 1983 imposed limitations on four production credit associations in the Spokane District pursuant to Section 1140 of the FCA Regulations. Section 1140 provides for the operations of a bank or association to become subject to procedures approved by the Farm Credit Administration when such a bank or association is determined by its board of directors, its supervisory bank, or FCA to be insolvent or to have an impairment of capital stock.

In the case of the four PCAs, corrective actions were taken. After conducting special audits, FCA determined that members' stock was impaired in the Southern Oregon Production Credit Association (Southern Oregon), the Willamette Production Credit Association (Willamette), and the Puget Sound Production Credit Association (Puget Sound). Furthermore, FCA determined that the Southern Idaho Production Credit Association (Southern Idaho) was insolvent due to significant loan losses and noninterest-earning assets. In view of the serious condition of these PCAs, FCA (1) froze the purchase or sale of stock, (2) provided for neighboring PCAs to make new loans to borrowers in the territories of the affected PCAs, and (3) restricted the PCAs to servicing existing loans. The goal of these actions was to protect the respective PCA stockholders from further erosion of their equities and at the same time to ensure continuing and orderly credit service to borrowers within those territories.

Subsequent to invoking Section 1140, FCA placed Southern Oregon and Puget Sound into receivership and arranged for their territories to be taken over by neighboring PCAs. The Board of Directors of Southern Idaho approved a plan for voluntary liquidation. In these three associations, the higher quality existing loans will be sold to the neighboring PCAs that have been rechartered to expand their territories to serve farmers, ranchers, and fishermen in the area formerly served by the insolvent PCAs. Lower quality loans and other assets have been retained by the receiver or liquidator until such time as they can be disposed of in an orderly and prudent manner.

Directors of Willamette acting as individual stockholders objected to FCA's action with respect to that association and were successful in obtaining a preliminary injunction permitting Willamette to continue operating. Final disposition of the Willamette case will be determined through court action.

In addition to the four PCAs described above, there was one other voluntary liquidation of a PCA during 1983. Mammoth Cave Production Credit Association (Kentucky) agreed to be voluntarily liquidated. Also, through December 31, 1983, there were 18 PCA mergers. Some of these mergers were necessitated by financial difficulties, but others were undertaken to facilitate territorial realignments or otherwise improve System operational efficiencies and overall credit service to existing and future borrowers.

Consolidated Reporting System

Implementation of FCA's consolidated reporting system began in 1983. This effort constitutes a major overhaul of the process by which the Agency monitors Farm Credit banks and associations. It has four objectives: (1) streamline the reporting process; (2) improve the accuracy and timeliness of information; (3) eliminate duplication and unnecessary reporting; and (4) minimize the burden imposed on System institutions in reporting necessary information. When fully developed, consolidated reporting will cover all information regularly reported to FCA on the financial condition and operating performance of Farm Credit banks and associations.

At FCA's request, System bank presidents created an Ad Hoc Advisory Committee on Consolidated Reporting. This committee consists of FLB, FICB, and BC representatives. It purpose is to help ensure that implementation of the new reporting system is properly coordinated with System institutions.

Farm Credit System Funding

Interest Rates for 1983

Interest rates during 1983 moved relatively little from levels prevailing at the end of 1982. Providing stability to interest rates was the monetary policy employed by the Federal Reserve (Fed). Following its latest discount-rate cut in December 1982, the Fed maintained a fairly constant degree of reserve restraint until May. At that time, the indications became stronger that the excessive money-supply growth during the previous 9 months was being transformed into a more-than-moderate economic recovery. Credit market participants doubted that economic policymakers could shape such a recovery without creating excessive inflation and heightened credit demands. In anticipation of these developments, interest rates began to drift higher. At its May meeting, the Federal Open Market Committee did in fact vote to embark on a slightly more restrictive policy. This action was taken in the interest of arresting money-supply growth without causing interest rates to move so high as to abort the economic recovery or create added debt repayment problems for foreign countries. The policy subsequently appeared successful in that both money-supply growth and economic growth moderated in the second half of 1983, with interest rates declining from their peaks established in early August.

Outlook for 1984

Several fundamental factors are likely to affect interest rate developments in 1984. First, monetary policy is not likely to deviate significantly from the pattern established during 1983. In addition, the continuing difficulty of many developing countries to meet scheduled external debt service obligations will put pressure on the Federal Reserve not to tighten monetary policy. Also, the demand for credit in 1984 will not exceed moderate levels.

Short-term interest rates during 1984, when averaged over the entire year, should decline from the average levels prevailing during all of 1983 to levels resembling those observed during the first 6 months of 1983 (when 3-month Treasuries yielded 8.3 percent on average). Average long-term rates, on the other hand, are likely to be slightly higher than during all of 1983 (during which 10–20 year Treasuries yielded 11.2 percent on average), as businesses are expected to redirect their borrowing activity towards longer-dated liabilities. Such an action will be motivated by the need for corporations to match-fund an increase in capital expenditures. This activity, along with the Treasury's propensity to extend the average life of the public debt, will push the spread between short- and long-term yields to levels normally seen during an economic recovery.

Short-term rates may edge lower over the first part of 1984 as the expansion moderates. However, both short- and long-term rates are expected to drift upward later in the year, as the credit markets anticipate the possibility of a clash between public and private-sector borrowing in 1985.

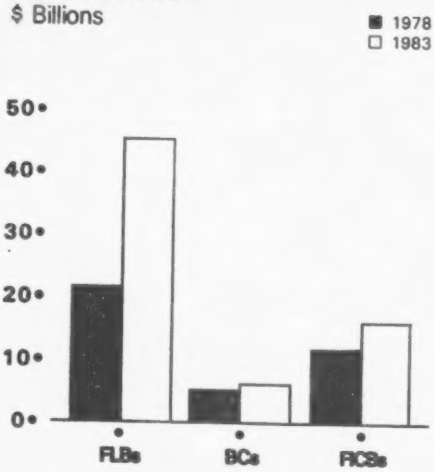
Farm Credit System Market Activity

The Farm Credit System relies heavily on the capital markets as its source of funds for financing lending operations. All three parts of the System managed to take advantage of the break in short-term rates that occurred in the first half of 1983 and reduced their average bond portfolio costs. However, continued weak demand for both real estate and production credit limited the System's financing needs and contributed to the first year-over-year paydown of the System's bond portfolio in recent history.

For the first 11 months of 1983, the System's maturing obligations exceeded its new obligations by $2.9 billion. This paydown of the portfolio follows $1.2 billion in new money raised over a comparable period in 1982 and annual average net changes in the portfolio of $10 billion or more in the 1979–81 period.

Short-term bonds issued during the first quarter of 1983 carried rates between 8.5 and 8.75 percent, considerably lower than the 1982 peak rate of 14.65 percent at the end of the second quarter. Unlike the past 3 years, System short-term bond rates displayed minimal volatility during 1983. In the first half of the year, the short-term rate remained at or below 9.25 percent. Towards the end of the summer, rates increased to a little above 10 perceht for a brief period and then fell to between 9 and 10 percent for the balance of the year.

Amount of Bonds Outstanding 1978[1] vs 1983[2]

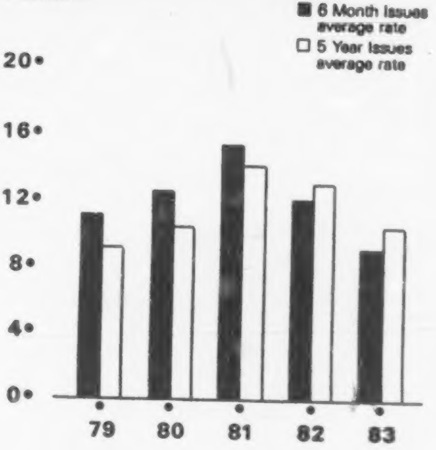


[1] FLB figures as of October 20, 1978 term sale; BC & FICB as of December 1, 1978 bond sale.

[2] As of December 15, 1983 bond sale.

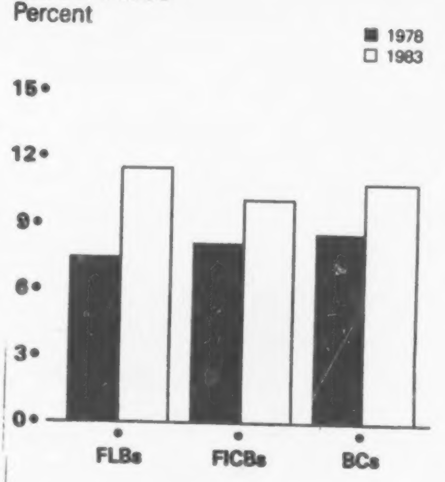
Because of the absence of major fluctuations in interest rates and the accommodative stance adopted by the Federal Reserve, short-term rates on new issues averaged 360 basis points lower in 1983 than in 1982. The average interest rate on the $26.2 billion in new short-term obligations issued through November was 9.2 percent in 1983, compared to 12.8 percent in 1982. In all, the System's short-term portfolio declined $4.8 billion from January through November 1983. However, a growing share of the System's short-term financing needs was accommodated by the discount note program in which outstandings increased approximately $2 billion during the year.

Average Annual Interest Rates on Farm Credit 6 Month and 5 Year Bonds



In the term-bond market, the System issued $7.5 billion in new obligations bearing a weighted average cost of 10.6 percent.

Average Cost of Bonds Outstanding 1978[1] vs 1983[2]



[1] FLB figures as of October 20, 1978 term sale; BC & FICB as of December 1, 1978 bond sale.

[2] As of December 15, 1983 bond sale.

Through November, the term-bond portfolio grew by an historically low volume of $1.9 billion, despite a 300 basis-point reduction in average term-bond funding costs. For the first time since July 1980, term-bond rates dropped to below 10 percent at the beginning of 1983. Between February and August 1983, term rates hovered around the 10 to 11 percent range and completed the year between 11 and 12 percent.

As the economic recovery continues to moderate in early 1984, Treasury rates are expected to ease slightly during the first half. By the end of the year, the financing needs of the Treasury could rise sufficiently to crowd out private-sector demands. Should this occur to a significant degree, interest rates would rise. Because System securities rates follow the general pattern of rates on new Treasury issues, all three of the System's average funding costs by yearend 1984 should not be significantly different from the end of 1983 average portfolio costs.

Farm Credit System Rates

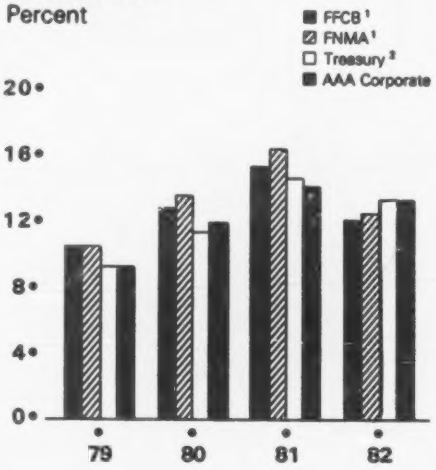
The Farm Credit System bases its loan rates on the average cost of funds, and commercial banks base their loan rates on the marginal cost of funds. The System, as a result, tends to have a slight competitive interest rate advantage over banks when rates are rising. As rates decline, however, the System's competitive edge in interest rate differential diminishes and can, in fact, reverse.

As an example, at the end of 1981 when interest rates were approaching record levels, the average commercial bank operating loan rate in the Chicago Federal Reserve district had risen to 17.4 percent. Because the System averages its higher-priced bonds with its lower-priced issues to determine its cost of funds, the System had not yet been significantly affected by increasing funding costs. Therefore, PCA rates were slower to rise and remained significantly lower at 12.9 percent. Conversely, when rates declined at the end of 1982 and early 1983, the commercial bank loan rate fell to 13.7 percent and the PCA rate to 12.0 percent, a much narrower gap than in the earlier period of increasing interest rates.

Federal Land Bank Rates

Because the FLB portfolio is largely composed of term issues and term bond rates were slower to fall than short rates, the FLBs experienced only a 5 basis-point reduction in their average cost of funds during 1983. At yearend 1982, the FLBs' average cost of funds was 11.88 percent and steadily declined in the first half of 1983 to 11.67 percent. Over the balance of the year, higher rates on term bonds at the System's quarterly auctions caused the FLBs' average portfolio costs to increase to 11.83 percent by the beginning of November.

Comparative Rates on Debt Issue

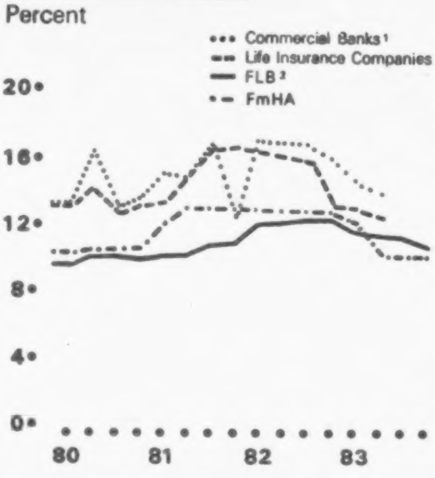


[1] All debt issued.

[2] 3-5 year maturities.

Despite the minimal fluctuations in FLB funding costs during the year, the average rate on agri-

Interest Rates Charged on Farm Real Estate Loans



[1] Minneapolis Federal Reserve District average interest rate on long-term real estate loans.

[2] Excludes stock purchases and other fees.

cultural loans closed by the FLBs declined from the average 1982 interest rate. At the beginning of 1983, farm real estate loans, which constitute 86 percent of all FLB outstandings, carried a rate of 11.94 percent. As the year progressed, the rate to farm borrowers declined or held steady every month. On November 1, the average reported rate was 11.44 percent, significantly lower than the 1982 low of 12.13 percent.

The remaining 14 percent of all loans extended by FLBs were for rural home and farm-related business purposes. The rate to borrowers in both these programs averaged 11.77 percent at the end of 1983, slightly higher than the farm real estate rate, but significantly lower than the November 1982 average rate of 12.63 percent.

Federal Intermediate Credit Banks/ Production Credit Associations Rates

Because of the FICBs' primary role as a source of funds to the PCAs for their short- and intermediate-term loans, nearly 90 percent of the FICB bond portfolio is composed of short-term bonds. The high concentration of short-term bonds in the FICB portfolio, coupled with a softening of short-term interest rates in the first half of 1983, enabled the FICBs to lower their average funding costs from the yearend 1982 level of 11.74 percent to 9.77 percent on June 1. As rates reversed their decline in the second half of 1983, the FICB average funding costs increased to 10.18 percent by November 1.

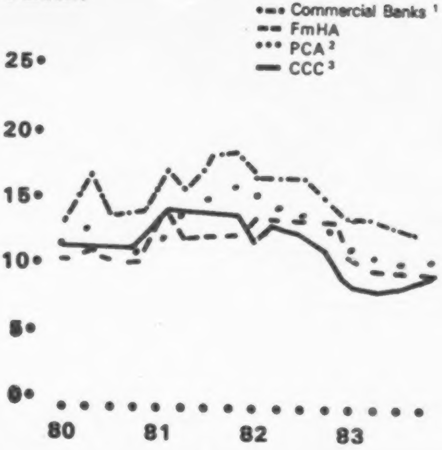
As a result, the rate on agricultural loans reported on July 1, 1983, was 11.37 percent, as compared to 14.42 percent reported a year earlier. At the beginning of the fourth quarter of 1983, most short-term rates trended slightly higher and PCA rates behaved accordingly, increasing to 11.78 percent.

Banks for Cooperatives Rates

Like the FLBs and FICBs, the BCs lowered their average funding costs during 1983; however, because the BCs have a greater dependence than the FICBs on term financing, the BCs' costs were not as greatly affected. Average BC funding costs reached the 1983 low of 10.28 percent in early May before turning upward the second half of the year to 10.68 percent on November 1.

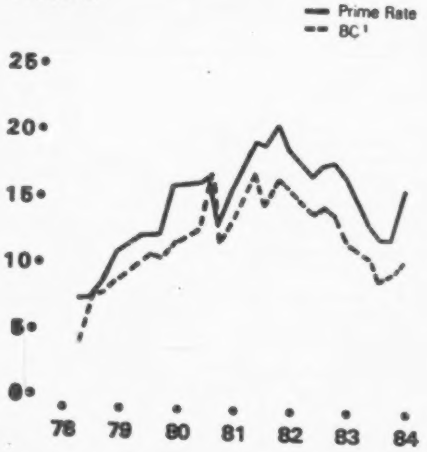
The BCs' lower funding costs were reflected in lower interest rates charged to cooperative borrowers as average seasonal rates declined from 10.89 percent on January 1 to 9.88 percent on June 1. By yearend, the average borrowing rate trended upward to 10.38 percent. BC term loan rates reacted a little more slowly than seasonal rates, beginning the year at 12.15 percent, declining gradually to 11.48 percent at midyear and increasing back to 11.69 percent by November 1.

Interest Rates Charged on Farm Nonreal Estate Loans
Percent



[1] Chicago Federal Reserve District Feeder Cattle loans.
[2] Excludes stock purchases and other fees.
[3] Crop year basis.

Banks for Cooperatives Seasonal Rate vs Prime
Percent



[1] Excludes stock purchases and other fees.

Farm Credit System Loan Volume

The Farm Credit System had $80.5 billion in loans outstanding on December 31, 1983, .4 percent more than a year ago.

Federal Land Banks
Total FLB loans outstanding reached $51.1 billion by December 31, 1983, 1.4 percent greater than the same date a year earlier. The number of FLB loans outstanding decreased by 0.8 percent from year earlier levels to 662,276 at the end of December 1983. The average FLB loan on October 31, 1983, was for $76,959, 2.5 percent more than a year earlier.

Production Credit Associations/Federal Intermediate Credit Banks
PCA loans outstanding stood at $19.3 billion at the end of December 1983, down 6.8 percent from a year earlier. The number of PCA members with loans outstanding decreased by 6.7 percent during the year ended December 31, 1983, to 340,831.

FICBs had an additional $850.0 million in loans outstanding to other financing institutions (OFIs) on December 31, 1983. This was 2.5 percent less than on the same date a year earlier.

Banks for Cooperatives
On December 31, 1983, the BCs had $9.3 billion in loans outstanding, an increase of 10.7 percent from year earlier levels. BC lending is particularly sensitive to changes in interest rates charged by other lenders and to commodity lending by the CCC.

System Lending Activity as of December 31

$ Thousands

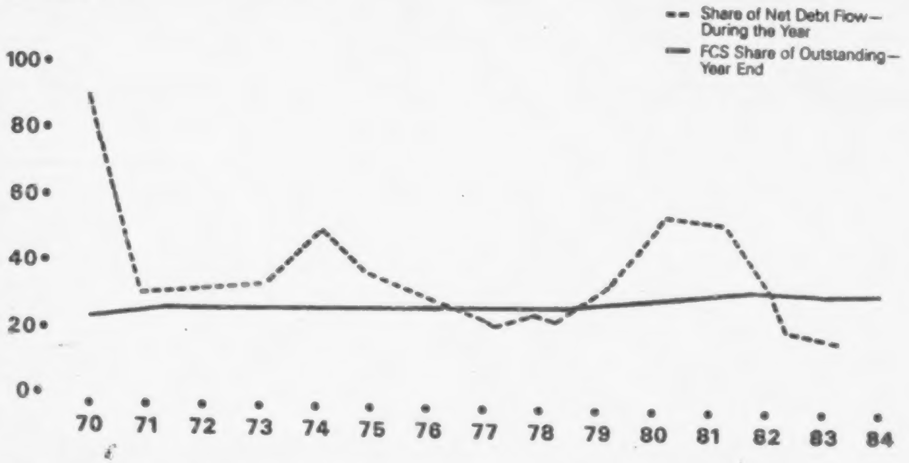
Federal Land Banks	1982	1983
Number of loans outstanding	667,912	662,276
Number of members with loans outstanding	643,620	629,968
Amount of loans outstanding	$50,375,306	$51,077,833
Number of loans made during year	63,399	42,335
Amount of loans made during year	$7,540,838	$4,785,275
Production Credit Associations*		
Number of members with loans outstanding	365,204	340,831
Amount of loans made during year	$33,135,033	$30,250,770
Amount of loans outstanding	$20,713,088	$19,263,484
Federal Intermediate Credit Banks		
Loans made to other financing institutions during year	$1,769,123	$1,713,342
Loans outstanding to other financing institutions	$ 871,957	$ 849,995
Banks for Cooperatives		
Number of cooperatives with loans outstanding	3,368	3,313
Amount of loans outstanding	$ 8,422,895	$ 9,319,250
Amount of loans made during year	$23,472,379	$29,145,854

*PCAs obtain loan funds from FICBs.

Farm Credit System Share of Farm Debt

Total farm debt is estimated at $215 billion by January 1, 1984, down .6 percent from $216.3 billion outstanding on January 1, 1983. The Farm Credit System share of farm debt outstanding is expected to account for $67.9 billion, or 31.6 percent of the total, slightly larger than its share a year earlier, 31.2 percent.

Federal Land Banks
According to projections, farm real estate debt will decrease about 1.7 percent during 1983, with farm real estate outstandings expected to be $112 billion. This marks the second year of extremely curtailed growth as low farm incomes continued to reduce farmers' ability to purchase additional farmland.



Farm Credit System
Share of Net Farm Debt Flow During Year and Debt Outstanding at Year End
Percent

It is anticipated that the real estate debt held by the Federal land banks will reach $48.2 billion by the end of 1983. This 2.1-percent rise continues the marked slowing in growth in FLB outstandings. The forecast represents a market share of 43.1 percent, the same share as last year. This is the first zero gain in market share in the decade, but may represent only a short-term deviation from a trend. Since 1978, the FLBs have emerged as the dominant provider of farm real estate-secured credit. Institutional real estate debt has grown relative to individually held debt, life insurance companies have gradually retreated from lending, and commercial banks have been constrained by cyclical liquidity pressures in addition to the natural mismatch between the maturity of real estate lending and their sources of funds.

Production Credit Associations/ Federal Intermediate Credit Banks
Total nonreal estate debt was projected to be $103 billion as of January 1, 1984, a decrease of 3.5 percent from 1983. This marked the first decrease since 1955, as CCC lending was sharply reduced, while both individual and institutional lending volumes grew at rates well below those of the 1970s. The low growth rates reflect reductions in the use of purchased inputs and in the acquisition of new farm machinery.

The nonreal estate debt held by the production credit associations/Federal intermediate credit banks dropped to $19.7 billion, a decline of 6 percent in 1983. This reduction follows the 5-percent decline in outstandings recorded in 1982. The 1982 and 1983 periods thus represent the first consecutive-year reduction in PCA/FICB outstandings in 5 decades.

Market share as of January 1, 1984, was 19.1 percent, down from 19.6 percent for 1983. The market share held by PCAs/FICBs has been declining sporadically since its peak in 1976, and continuously since 1981. Whereas the market share decline from 1982 to 1983 reflected the general decline in market shares of all other lenders in the face of sharp increases in CCC volumes, this past year the PCAs/FICBs yielded market share to FmHA and the commercial banks. The strong competitive position of commercial banks is due largely to their high degree of liquidity. Banks have been very successful in attracting deposits, but loan demand during a period of moderate economic recovery has not kept pace; therefore, the liquidity of commercial banks is the highest it has been in more than half a decade.

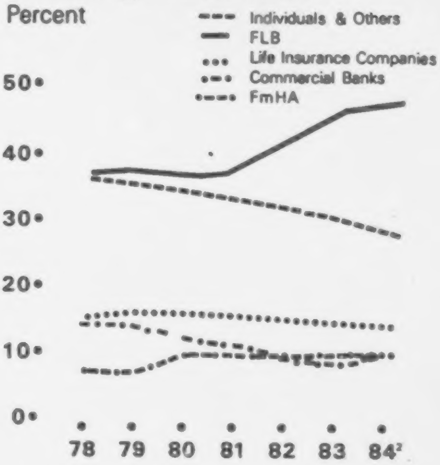
Banks for Cooperatives
Although BCs remain the largest single source of debt capital for large cooperatives, providing just over half the debt capital in 1983, their share has declined moderately over the past 3 years. Since 1970, the reduction in importance of BCs as sources of debt capital for large cooperatives has been even more significant. Banks for cooperatives are relatively more important as sources of long-term debt capital for cooperatives than they are as sources of short-term debt.

Commercial banks maintained their share of the debt capital of large cooperatives at 5.9 percent of total debt. Commercial banks figure more prominently as sources of short-term debt.

The most dramatic changes in sources of debt capital for cooperatives since 1970 has occurred in the "other sources' category. This category includes borrowings from insurance companies, other nonfinancial businesses, the Commodity Credit Corporation, miscellaneous sources, and the use of commercial paper. Of these sources, life insurance companies are the most important, holding 4.2 percent of cooperative debt in 1983. Sales of commercial paper by cooperatives showed the largest growth in this category. This source of financing, relied upon mainly by the largest cooperatives with high credit ratings, grew to 3.2 percent of debt capital in 1983.

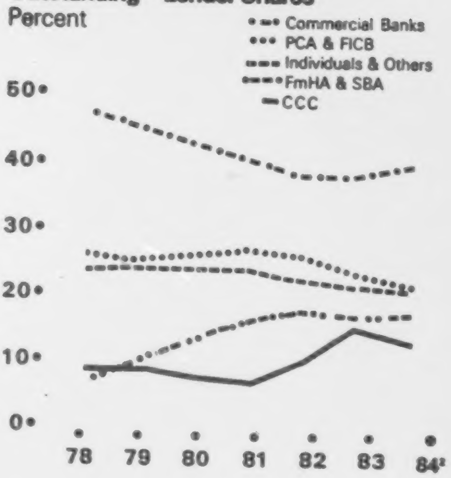
Use of industrial development bonds was almost equal to use of capitalized leases as sources of debt capital for cooperatives in 1982.

Farm Real Estate Debt Outstanding—Lender Shares[1]



[1] As of January 1.
[2] Preliminary

Farm Nonreal Estate Debt Outstanding—Lender Shares[1]



[1] As of January 1.
[2] Preliminary

International Financing and Technical Cooperation

International Agricultural Trade Financing
In 1980, Congress amended the Farm Credit Act to provide the banks for cooperatives (BCs) with authority to finance the international transactions of America's farmer cooperatives. By virtue of these new authorities, the bank for cooperatives system has begun to make inroads in helping U.S. agricultural producers and their cooperatives enter foreign markets for agricultural products.

These authorities are being implemented on a controlled basis to ensure that responsible and prudent international lending practices are followed. Initially, the BC system agreed with FCA that the best and most efficient approach to entering the international lending arena would be for the Central Bank for Cooperatives to assume the lead role in establishing the international financial network for the BC system. During 2 years in which the BC system has been authorized to engage in the international financing of farmer cooperative exports, the Central Bank has done a creditable job of developing this international financial network.

As of September 30, 1983, BCs have extended $477 million in international credit to support export sales of U.S. farmer cooperatives.

The BC international financing operations have now progressed to the point where a decentralization of some of the services being offered by the Central Bank for Cooperatives will occur in 1984. Some district BCs will establish their own international financing departments to market directly and in some cases book loans for the benefit of farmer cooperatives in their districts. The Central Bank will continue to be the primary focal point for System international lending activities, especially in dealing with foreign borrowers. Country risk assessments will be a function of the BC Banks but will be centralized rather than handled by individual BCs. This expanding role is a second step in involving the System in the support of the credit needs of cooperatives engaged in international agricultural transactions.

Even though next year should be one of slow growth in agricultural exports, the BCs have conservatively estimated at least a doubling of their international assets over the next 12 months. This will be due to increased direct exporting by farmer cooperatives, together with aggressive marketing of the BCs' international financial capabilities. FCA encourages this growth and will continue to monitor the credit extended to ensure that it is done in a prudent manner.

The BC international lending authority, found primarily in Section 3.7(b) of the Act, is narrowly drawn to ensure that the farmer cooperatives benefit from the international lending activities of the BCs. This authority has been implemented through the financing tools minimally necessary to finance international trade. The BCs may offer letters of credit, standby letters of credit (bid or performance bonds), bankers' acceptance facilities, foreign trade receivables financing, and term loans. The BCs may also offer long-term financing for facilities and other entities owned by farmer cooperatives to facilitate their international trade. Farmer cooperatives have made little demand for this type of financing, but in the future cooperatives may find it necessary to construct elevation and other facilities to move their export products more efficiently. The BCs can finance these developments.

The majority of the export transactions currently financed by the BCs has been supported by guarantees of the Commodity Credit Corporation under the GSM-102 program. Under this program, farmers have been able to move more U.S. grain and other agricultural products during a period of strength for the U.S. dollar and thus high prices for the foreign purchaser. U.S. farm cooperatives aided by the Central Bank have used the GSM-102 program to become a significant force in some foreign markets.

The primary purpose of the 1980 Export Financing Amendments was to increase agricultural exports of farmer cooperatives so that a greater percentage of the return would go to the farmer producers. With the addition of Central Bank financing and programs like GSM-102, we are beginning to see cooperatives penetrate markets in countries where they were not previously successful.

Another benefit to farmer cooperatives' exports is the Central Bank's successful negotiation of the largest exporter credit insurance policy issued to date by the Foreign Credit Insurance Association (FCIA). FCIA and the Export-Import Bank of the United States have worked closely with the Central Bank to develop this policy in fulfillment of their congressional mandate to support agricultural exports. We anticipate that this policy will be used by farmer cooperatives over the next few months to help penetrate new foreign markets not covered by GSM-102.

Substantial debt has been assumed by countries whose only hope for meeting debt service obligations lies in constantly increasing earnings from the export of basic commodities. This hope has grown faint for two reasons. First, rising interest rates have increased the cost of money, further damaging the developing countries as they seek to borrow more to pay maturing obligations; and second, worldwide recession has choked off demand for exports, reducing both the quantity of commodity exports and the price paid for them. Perhaps those most seriously cut by this two-edged sword are the petroleum-producing developing countries. Mexico, Venezuela, Nigeria, Indonesia, and petroleum-importing Brazil are especially conspicuous, both for the size of their external debt burdens and the importance of these markets for U.S. agricultural exports.

Interest rates on international loans are competitive to help the cooperatives break into new export markets. This has been especially true in Mexico and Brazil, where the cooperatives and the BCs have become major providers of credit extended under the GSM-102 program.

The BCs have established a system to review the degree of country risk involved in agricultural trade financing abroad. This system assesses each country's economic and political environment and assigns country limits. About 50 countries have been assessed and are reviewed periodically. The Farm Credit Administration is in the process of establishing its own system to assess cross border risks and will, from time to time, make its assessment known to the BCs in a manner similar to that used by other banking regulatory agencies.

Technical Cooperation Activities

The growing U.S. economic stake in the stability and growth of the world economy has increased the importance of the role of bilateral and multilateral technical cooperation, exchange and development. This is particularly true for the agricultural sector. In addition, U.S. foreign policy is placing greater emphasis on self-help, participatory, growth-oriented development strategies, with a focus on developing and applying the resources and know-how of the U.S. and developing country private sectors. The Farm Credit System represents a successful private-sector model in the area of agricultural finance.

For these reasons, the Farm Credit System has been involved in international cooperation activities for at least 25 years through short-term training programs for foreign nationals sponsored by international development organizations, and to a lesser extent, through the participation of System professionals in short-and long-term overseas assignments under the auspices of the Agency for International Development (AID), USDA, and Agricultural Cooperative Development International (ACDI).

In 1983, FCA hosted over 200 international visitors from more than 30 countries. International visitors came for a variety of reasons, although most were in the United States as part of formal study tour programs. Many of them came to explore potential trade and/or technical exchange possibilities. Approximately 65 percent of those hosted by the Agency came from developing countries under the sponsorship of international development organizations; the remainder came from developed countries and were sponsored by their employers.

During recent years, FCA has participated in three major technical cooperation activities:

- In 1978 an agreement was reached and a program of technical cooperation was developed between FCA and the Saudi Arabian Agricultural Bank under the coordinating auspices of the U.S.-Saudi Arabian Joint Commission on Economic Cooperation. The project now involves a budget of over $8 million (Saudi government-funded), a staff of 11 professionals, 10 of whom are stationed in Riyadh, and two direct project support personnel. It also includes indirect project support personnel in Washington and project participants in other parts of the United States. The project has made significant progress in assisting Saudi efforts to improve bank organization, management, credit operations, and human resources development. Over 125 Saudi Arabian Agricultural Bank employee-trainees have received or are receiving training at universities and on-the-job locations (mostly in System banks and associations) in this country. This project is expected to continue at least through 1984.
- In late 1983, FCA and an employee of the Farm Credit System provided the technical expertise needed to review and evaluate an AID-supervised credit project for small farmers in Tunisia. The project required a three-person evaluation team to work onsite for a 4 week period. The report and recommendations were delivered to the USAID mission and appropriate officials of the Tunisian Government.
- In October, 1983, FCA and the Farm Credit System hosted the Seventh Confederation International du Credit Agricole (CICA) World Congress on Agricultural Credit in St. Louis, Missouri. Conference proceedings emphasized formal presentations and workshops designed to facilitate discussion and exchange of ideas and information among 360 foreign agricultural credit professionals from 28 countries.

Special Lending Activities and Related Services

Young, Beginning, and Small Farmers

Farm Credit System institutions began developing programs for young farmers in the early 1970s when land banks began arranging loans jointly with the Farmers Home Administration for young borrowers who lacked the equity necessary to qualify for commercial loans. In 1974, following a Young Farmers Financing Conference, a number of FLBAs and PCAs initiated special loan programs designed to help young farmers build viable farm businesses.

With the passage of Section 401 of the Farm Credit Act Amendments of 1980, Congress directed district banks to develop policy guidelines to be used by associations to establish programs to aid creditworthy young, beginning, and small farmers and ranchers. FCA has promulgated regulations and System banks have developed model policies and guidelines for FLBAs and PCAs to consider in implementing programs that are tailored to local agricultural and economic conditions and their own capabilities. In addition, FCA continues to work with FmHA to improve coordination with System lending programs, giving special emphasis to young and beginning borrowers.

Specific information requirements have been developed with the cooperation of FLBs and FICBs to meet the special reporting requirements for the young, beginning, and small farmers and ranchers programs. FCA is analyzing the district bank reports of activities in this area. A summary account of our findings will be included in a separate report to Congress during the first quarter of 1984.

Other Financing Institutions

The Federal intermediate credit banks are authorized to provide loan funds to production credit associations and to discount or purchase agricultural paper from other financing institutions (OFIs). OFIs are commercial banks and other institutional lenders that qualify for access to the discount facility. They may do so if they are significantly involved in agricultural lending and if they can meet other statutory and regulatory requirements for eligibility under the Farm Credit Act of 1971, as amended.

In 1980, the Farm Credit Act of 1971 was amended to provide less restrictive debt-to-capital requirements for OFIs and to ensure access for those OFIs meeting certain statutory standards. Since that time, the Farm Credit Administration has developed regulations for implementing the amendments. The FICBs in turn have developed policies and procedures to provide this expanded service to eligible users. Nevertheless, commercial banks have not used this new authority to the extent anticipated during consideration of the 1980 amendments because of improved liquidity and relatively weak farm loan demand.

Special Lending Programs
Outstanding at December 31, 1982 & 1983
$ Millions

	1982	1983
OFI Loans	**$ 872.0**	**$ 850.0**
PCA Participation Loans	**142.3**	**93.3**
Aquatic Loans	**439.3**	**335.3**
Federal Land Bank	0.2	0.3
Production Credit Association	438.4	334.3
Banks for Cooperatives	0.7	0.7
Rural Home Loans	**3,125.1**	**3,079.0**
Federal Land Bank	3,067.8	2,999.7
Production Credit Association	57.3	79.3
Rural Electric Cooperatives	**1,298.3**	**1,371.3**
International Loans	**147.9**	**646.9**

As of December 31, 1983, there were 198 OFIs discounting with FICBs, representing 320 commercial banks. As of December 31, 1983, there was $850.0 million in OFI loans outstanding, a decrease of 2.5 percent from the previous year.

Commercial Lender Participations

The PCA participation program is a means by which other agricultural lenders obtain loan funds from the Farm Credit System without establishing a discount relationship with an FICB. The PCAs are authorized to participate in agricultural loans originated by other lenders. The program is similar to the typical overline arrangement between a country bank and a city correspondent bank. A PCA participates in eligible overline loans (loans that exceed that bank's legal lending limit) or loans in which the lender may wish the PCA to participate. The requirements of this program were also reduced by the 1980 amendments to the Farm Credit Act of 1971 by allowing the participation certificate required to capitalize these loans to be issued in the name of the commercial bank, rather than in the name of the borrower.

Total commercial participations outstanding on December 31, 1983, involving 228 banks were $93.3 million, a decrease of 34.4 percent in loan volume. This decrease in loan volume is also a reflection of the increased liquidity of commercial banks.

Aquatic Lending

The Farm Credit Act of 1971 as amended authorizes production credit associations to make loans to producers or harvesters of aquatic products. Aquatic loan volume grew modestly through 1978 to $91 million, then expanded rapidly through 1981 to $470 million. As of December 31, 1983, there was $334.3 million in loans outstanding to some 2,456 aquatic borrowers by 54 PCAs in seven Farm Credit districts on the Atlantic, Pacific, and Gulf Coasts.

The Act authorizes Federal land banks to make aquatic loans for facilities. The Act also authorizes banks for cooperatives to lend to cooperatives engaged in producing or harvesting aquatic products or in furnishing aquatic business services. FLB and BC aquatic loans outstanding are insignificant (slightly more than $1 million as of December 31, 1983). The total amount of aquatic loans outstanding for System institutions in the year ended December 31, 1983, was $335.3 million.

Experience with aquatic loans was generally favorable through 1980, but difficulties became apparent in 1981 and continued through 1982. These difficulties have accelerated in 1983. They stem from extensive expansion of debt, combined with escalating operating costs, declining product prices to fisherman, and declining or cyclical resources.

Marketing and Processing

The Farm Credit Act Amendments of 1980 provide authority for the FLBs and PCAs to finance the basic processing and marketing functions of farmers, ranchers, and producers or harvesters of aquatic products. The applicant's operation must supply at least 20 percent of the total throughput involved in the processing or marketing activity for which financing is extended. A larger percentage may be required by the supervising bank's board of directors.

Those types of farming activities involving lower applicant throughput levels (less than 50 percent of the producer's crops, livestock, or crops) represent only a small percentage of System processing and marketing activities. FLBs and PCAs continue to provide farm loans, which include processing and marketing activities if the producer's throughput is greater than the 50 percent authorized by the 1980 Amendments. For example, a farmer with an FLB loan may borrow additional money to construct a dehydrator for processing his own alfalfa. This type of loan is treated as a regular farm loan. Only the few loans made under the new or expanded authority of the 1980 Amendments are reported as processing and marketing loans.

The regulations provide that banks shall develop policies implementing this authority subject to approval by the Farm Credit Administration. As of December 31, 1982, 10 of the districts had submitted policies and nine of them have been approved by FCA; however, because of adverse economic conditions, relatively few loans have been made under this authority.

Rural Home Loans
The Farm Credit Act of 1971 provides authority for Federal land banks and production credit associations to make loans for rural homes under certain conditions, including but not limited to the following: the homes must be in rural areas; they must be modestly priced; and they must be owner-occupied with no more than one rural home loan being extended to a borrower at any time.

The Farm Credit Administration, as part of its supervisory responsibility, gathers and analyzes data developed by governmental sources and realtor groups in order to annually provide information regarding nationwide moderate price levels. The Agency also reviews rural home loan borrower files in selected associations each year to determine loan quality and eligibility.

As of December 31, 1983, FLBs and PCAs had $3.1 billion in rural home loans outstanding, a decrease of 6.5 percent from 1982. This represents 4.4 percent of total FLB and PCA loans outstanding.

Rural Electric Cooperative Loans
In the year ended December 31, 1983, the BCs had approximately $1.37 billion in loans outstanding to rural electric cooperatives (RECs) and rural telephone cooperatives, up 5.6 percent from a year ago. Rural electric lending is primarily concentrated in the Louisville, New Orleans, and St. Paul Farm Credit Districts, although six other districts do have loans outstanding to RECs. The 83 RECs with loans outstanding represent 2.5 percent of the total number of cooperatives with BC loans outstanding.

Lending to RECs has increased substantially over the years, though only slightly this year. Most of the BC lending has been to generating and transmission cooperatives, although the BCs continue to broaden the scope of lending to RECs as loan commitments to an increasing number of distribution cooperatives are being made.

In fulfilling FCA's supervisory responsibility, staff reviews REC loans in the examination process and addresses any difficulties regarding compliance with the law and credit standards through its supervisory activities with the banks.

Financially Related Services
The Federal Farm Credit Board believes that to serve adequately the financial needs of farmers, ranchers, commercial fishermen, and their cooperatives, the Farm Credit System should make available to eligible members a broad range of financially related services appropriate for successful agricultural operations. In December 1983, the Board adopted a revised policy on financially related services that encourages the System (1) to develop the ability to provide full financially related services to all types and sizes of agricultural producers in the future, and (2) to proceed with the development of financially related services that will set a standard for the agricultural lending industry.

The Board recognizes that the primary function of System institutions is to make credit available to farmers and ranchers and that the primary consideration in offering any service should be the benefit it provides agricultural producers and their cooperatives, rather than the benefit that may accrue to the banks or associations. Such services as are provided shall be consistent with the law and FCA Regulations.

Providing financially related services through the System is not a new concept. Credit life insurance has been offered to Farm Credit System borrowers for over 30 years. Crop hail insurance and electronic farm recordkeeping programs have served members for over 15 years. Other financially related services offered include credit disability insurance, multiple peril crop insurance, equipment rental, estate planning assistance, farm business consulting, income tax preparation, and appraisal services. The banks for cooperatives provide financial management and planning assistance to cooperatives.

The examination and supervision of these programs is accomplished through on-site reviews at the banks and associations. These reviews ensure that FCA regulations, guidelines, and other conditions under which the programs were approved are being followed.

Farmbank Services
Farmbank Services (Farmbank) is a nonprofit, central service organization established to provide services and lower cost purchasing arrangements for the 37 banks in the Farm Credit System. Located in Denver, Colorado, Farmbank was established in 1975 and provides the following services: Research and Economic Analysis, Information Management, Management Development, Insurance (for System institutions), Public Relations and Advertising Programs and Development, Pur-

chasing, and Administrative and Accounting Support.

Farmbank is supported by System banks. One-fourth of its revenues is targeted to be provided through assessments on all the banks; the balance of its revenues is raised by charges to individual banks for services rendered. The Farmbank Services Governing Body, which serves as its board of directors, represents the Farm Credit bank presidents and district boards of directors. The full board meets twice annually to set policy, hire management, and approve Farmbank's budget. The Governing Body's executive committee meets six times a year. The chief executive officer of Farmbank is the executive manager and reports to the Governing Body.

Service Organizations
Section 404 of the Farm Credit Act Amendments of 1980 authorizes System banks to act individually or in concert to create corporations to perform functions or to provide services for banks and members that the bank could otherwise perform under its own authority. These corporations, which are to be chartered and supervised by the Farm Credit Administration, cannot provide insurance service or extend credit. The Governor has now issued two charters pursuant to this authority.

The Farm Credit Act of 1971, as amended, requires that System bonds be sold through a fiscal agency. At the request of the 37 Farm Credit banks to incorporate this agency, on July 1, 1983, the Governor chartered the Federal Farm Credit Banks Funding Corporation. In August 1983, at the request of 18 Farm Credit banks, the Governor issued a charter for a Farm Credit Leasing Corporation. This newest entity will be able to provide significant savings, especially to agricultural cooperatives, by buying and leasing farm equipment.

Administration

Farm Credit Administration
The Farm Credit Administration's chief executive officer, the Governor, is appointed by the Federal Farm Credit Board. The Governor, together with his staff, is responsible for carrying out the Board's policies.

Donald E. Wilkinson
Governor

C. T. Fredrickson
Senior Deputy Governor

Kenneth J. Auberger
Deputy Governor and Chief of Staff

Larry W. Edwards
Deputy Governor
Office of Supervision

Eldon W. Stoehr
Deputy Governor and Chief Examiner
Office of Examination

Larry H. Bacon
Deputy Governor
Office of Administration

Frederick R. Medero
General Counsel

Kim C. Bowersox
Director
Congressional and Public Affairs Division

Federal Farm Credit Board
The Federal Farm Credit Board is the top policymaking body for the Farm Credit Administration in its supervision, examination and regulation of the cooperative Farm Credit System. The Board establishes regulations and statements of policy to implement the laws under which the System operates, and also recommends legislative actions needed to ensure that the System is fulfilling the objectives established by Congress, of meeting the sound credit and related needs of borrowers.

Members of the Federal Farm Credit Board serve on a part-time basis. Twelve members of the Board, one from each district, are appointed by the President of the United States, with the advice and consent of the U.S. Senate. They serve 6-year terms and are not eligible for reappointment. A thirteenth member of the Board is appointed by and serves at the pleasure of the Secretary of Agriculture.

The law provides that in making his appointments to the Board, the President "shall have due regard to fair representation of the public interest, the welfare of farmers, the types of institutions constituting the System, with special consideration to persons who are experienced in cooperative and agricultural credit." Through a series of polls, three candidates are nominated for each vacancy on the Federal Farm Credit Board—one each by the Federal land bank associations, production credit associations, and cooperatives holding stock in the district's bank for cooperatives.

The present members of the Federal Farm Credit Board are as follows:

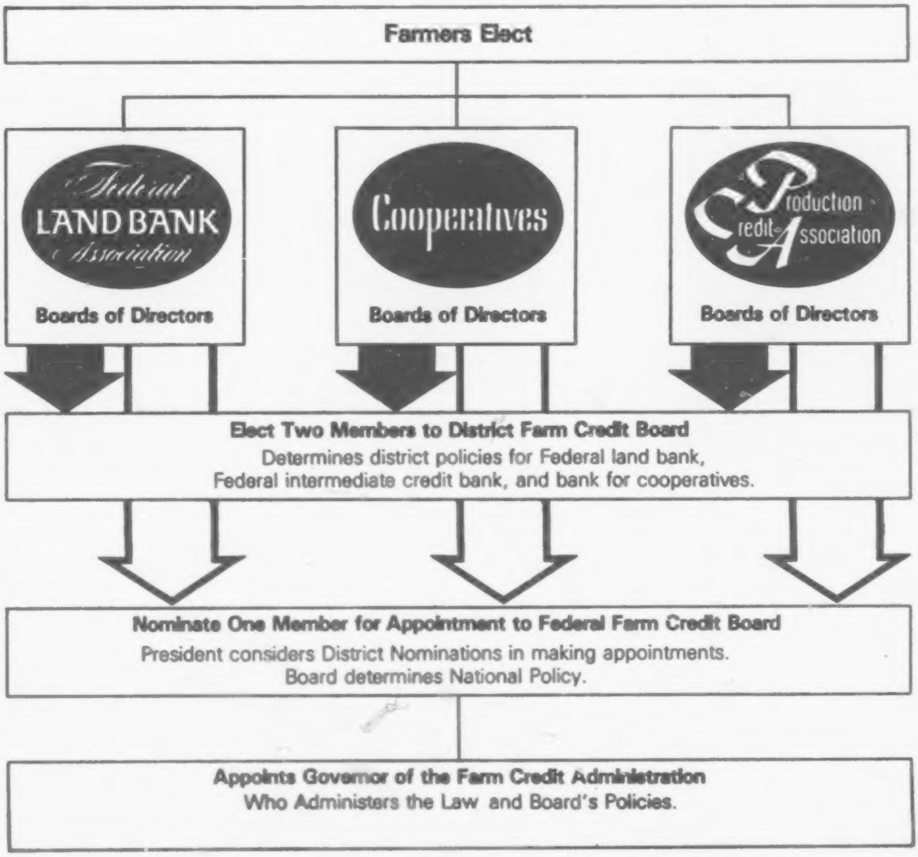
Board Member	District Represented
Dwight L. Tripp Chairman Maine	**Springfield**

William D. Wampler Virginia	**Baltimore**	**Ralph Raikes** Nebraska	**Omaha**
W. Proctor Scarboro North Carolina	**Columbia**	**Ralph Ball** Kansas	**Wichita**
Leonard R. Fouts Indiana	**Louisville**	**Tom H. Carothers** Texas	**Texas**
Joseph A. Kyser Alabama	**New Orleans**	**Paul I. Enns** California	**Sacramento**
John D. Naill, Jr.* Arkansas	**St. Louis**	**George W. Lacey*** Montana	**Spokane**
Jewell Haaland Minnesota	**St. Paul**	**George Steele** Pennsylvania	**Secretary's Appointee**

*Term expires March 31, 1984.

Farm Credit System
Organizational Structure

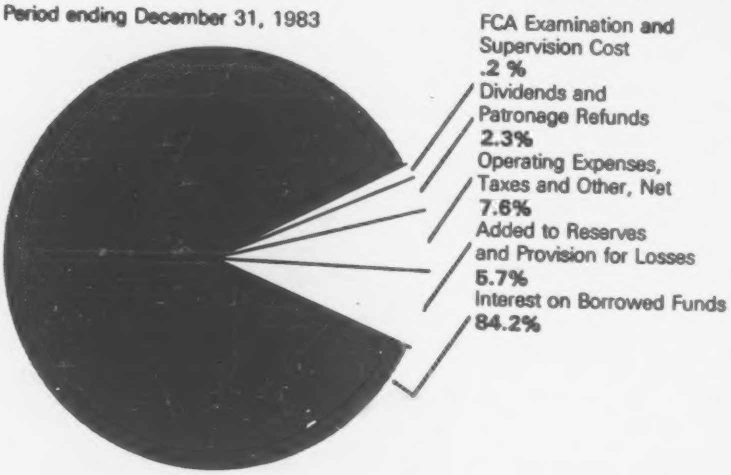
How Farmers Share in Control of the Cooperative Farm Credit System


Farmers Elect
Federal LAND BANK Association
Boards of Directors
Cooperatives
Boards of Directors
Production Credit Association
Boards of Directors
Elect Two Members to District Farm Credit Board
Determines district policies for Federal land bank, Federal intermediate credit bank, and bank for cooperatives.
Nominate One Member for Appointment to Federal Farm Credit Board
President considers District Nominations in making appointments. Board determines National Policy.
Appoints Governor of the Farm Credit Administration
Who Administers the Law and Board's Policies.

Farm Credit System Costs
This chart shows the costs that Farm Credit borrower/owners pay to operate their system and obtain the credit they need for their farm, ranch, and aquatic operations. The chart illustrates the self-supporting character of the System. The borrower/owners pay the borrowed funds and all expenses, including the Government examination and supervision provided by FCA.

Farm Credit Administration expenses have increased yearly; however, in comparison to the System's loan activity, Farm Credit Administration expenses are small.

Period ending December 31, 1983



Farm Credit Administration Expenses

Year	FCA Expenses ($ Amount)	Percentage Increases in FCA Expenses	FCA Expenses as a Percent of Loans Outstanding	FCA Expenses as a Percent of Loans Made
1978	8,828,000	+ 7.1	.019	.021
1979	10,551,000	+19.5	.019	.020
1980	11,288,000	+ 7.0	.017	.017
1981	12,796,000	+13.4	.017	.018
1982	14,861,000	+16.1	.018	.022
1983	**17,358,000**	**+16.8**	**.018**	**.022**

Policy Initiatives

Project 1995
In the past year, the Farm Credit System has embarked on a major exploratory undertaking, Project 1995. The purpose of this Systemwide research study is to assess the agricultural credit and funding environment of the 1990s and beyond, in order to better anticipate and meet the needs of a rapidly changing and dynamic agricultural sector of our economy.

Agriculture and food production have always been subject to change brought on by industrialization, advancing technology and scientific research. In the future, developments in many seemingly unrelated fields—management and business technology, the financial world, and computer technology, for example—will also have a significant impact on agriculture. Successful long-range planning in the agricultural economy will require the assessing and understanding of a successively more complex world.

Project 1995 is designed to be an "educated exploration" of the future challenges facing agriculture. The 18-month study is divided into three phases:

Phase I	Factfinding and identifying conditions.
Phase II	Assessing the implications.
Phase III	Exploring the various alternatives and their impact.

While FCA has been invited to participate in Project 1995, it is a System initiative. The first phase is to be completed by August 1984 and will involve FCA and System technical and data-gathering capabilities. The second and third stages will further involve all facets of the System, from district bank management to local association membership, in analyzing the information and considering the future challenges and needs facing production agriculture and rural America.

Separation of Agency/System

The 1971 Act redefined the relationship of the FCA and the Farm Credit System to reflect the conversion of Farm Credit institutions from partly government owned to completely privately owned institutions, vesting management authority in the institutions and the distinctly governmental functions of examination, supervision, and regulation in the FCA. A major objective of FCA is to ensure that the district and association boards properly exercise their management responsibilities over System institutions. Delegation to the banks of supervisory authority for the associations has now been completed.

The various institutions within the Farm Credit System were developed at different times, were supervised differently, and are at different stages of development. As FCA and the System continue to develop the decentralized management structure called for in the 1971 Act, there have been changes in the supervisory process. FCA has learned that examining financial, credit, and other records in an attempt to identify symptoms of problems, while leaving operations to the boards of directors of banks and associations to supervise, did little to get to the root of deficiencies. The fact is that poor credit quality is always found after the fact. FCA has come to realize that these problems are the result of not adequately evaluating the management of the banks and the banks not adequately evaluating the management of local associations.

We have learned over a long period of time that FCA must objectively appraise the effectiveness of management, provide appraisals to the boards of directors of the banks, and insist that the boards of directors hold management accountable for following the law, regulations, and the bank's own policies. We also expect the banks to do the same with respect to the management and boards of directors of local associations in carrying out the objective to decentralize the System. Separation of the FCA and the System requires discipline, a reasonable degree of uniformity, policy direction from the Federal Farm Credit Board, where appropriate, and accountability.

The maturation of the Farm Credit System and its development of an identity separate from that of FCA is moving forward. The System has developed its own mechanism for representing its interests to Congress and state legislatures. The Farm Credit Council (FCC), with a Washington office and 12 district councils, is now in place and establishing a separate voice for the private interests of the System. FCA fully intends to preserve its own independence and to fulfill its statutory responsibility for protecting the public interest vested in the Farm Credit System. The result of this separation should be a better opportunity for FCA to objectively advise Congress of the public policy consequences of issues impacting on agricultural credit while leaving to the FCC the responsibility for reaching a consensus on issues affecting the private interest of the System and presenting those interests to Congress.

Coordination and Structure

The ultimate responsibility and obligation of the Farm Credit Administration is to ensure that the Farm Credit System provides farmers, ranchers, commercial fishermen and their cooperatives the highest quality and most efficient credit service possible. The Federal Farm Credit Board has adopted the policy that the Farm Credit System should pursue coordinating managerial and organizational structures of System banks and associations as a means of providing quality service to existing and potential borrowers.

The responsibility for these decisions rests with individual member-borrowers and their elected boards of directors. The Farm Credit Administration, as supervisor and regulator, is encouraging System institutions to address alternative structures as they may apply to each district and association.

Consistent with this policy, it is left to the district management and elected boards of directors to consider coordinating and consolidating organizational structures as a means of maintaining and improving System service to borrowers. District actions in this area have included consolidating the chief officers and staffs of the three district banks, establishing common territories of production credit and Federal land bank associations, and sharing association offices to provide borrowers more convenience and economy.

Some districts have determined that maintaining individual banks or associations best meets the needs of borrowers and is the most efficient structure. In these districts, emphasis is placed on increased communications to ensure that Farm Credit System institutions are fully cooperative and mutually supportive.

Although the sister institutions—Federal land banks, Federal intermediate credit banks, and banks for cooperatives—were initially intended and designed to meet differing financial needs, and remain separate legal entities, the differences among them that were once relatively clear are no longer so distinct. Many agricultural producers now view their long- and short-term credit and service needs as closely related. Efficiency and convenience are major considerations in their selection of credit servicing. The Federal Board's policy initiative on coordination and structure provides the System with sufficient guidance to consider beneficial changes. The Farm Credit Administration will continue its supervisory activities to help System institutions carry out policy objectives.

Appendix

Federal Farm Credit Board
Statement on Lending Under Stress Conditions

Recognizing the current plight of the Nation's farmers in which they have experienced declining prices in the face of mounting operating costs, the Federal Farm Credit Board pledges the fullest support of the cooperative Farm Credit System in doing what it can to assist hard-pressed member-borrowers while continuing to carry out the intent of Congress by maintaining a viable credit delivery system. The Federal Farm Credit Board reaffirms the System's long-standing policy of forbearance—that is, sticking with a borrower so long as there appears to be a reasonable possibility for him to work out of financial difficulties and reestablish a fully viable farm business. In so doing, System institutions must be prepared to require that adjustments be made or disciplines exercised to help assure the borrower's ultimate recovery. Foreclosure or other such drastic action is to be avoided unless and until there is no reasonable alternative course of action remaining.

In carrying out this policy, strong emphasis must be placed on appropriate loan servicing that will benefit the borrowers who are cooperative and making an honest effort to meet the conditions of the loan contract. It is recognized further by the Board that the desire to stay with farmers in difficulty must be balanced against the need to maintain the good reputation Farm Credit securities have in the financial market, thereby assuring the System's ability to raise loan funds. Since the Farm Credit System is a privately-owned institution, it has an obligation to all the farmers who own it to run a sound business and not put some borrowers in a position of subsidizing defaulting borrowers as a result of excessive interest and loan losses.

Thus, the Federal Farm Credit Board recognizes its obligation to protect the interest of the System borrowers—both present and future—as well as the interest of investors upon whom the System depends for loanable funds.

February 1983

Farm Credit Banks

Farm Credit Banks of Springfield
P.O. Box 141
Springfield, MA 01101

Farm Credit Banks of Baltimore
P.O. Box 1555
Baltimore, MD 21203

Farm Credit Banks of Columbia
P.O. Box 1499
Columbia, SC 29202

Farm Credit Banks of Louisville
P.O. Box 32660
Louisville, KY 40232

Farm Credit Banks of New Orleans
P.O. Box 50590
New Orleans, LA 70150

Farm Credit Banks of St. Louis
P.O. Box 504
St. Louis, MO 63166

Farm Credit Banks of St. Paul
375 Jackson Street
St. Paul, MN 55101

Farm Credit Banks of Omaha
206 South 19th Street
Omaha, NE 68102

Farm Credit Banks of Wichita
151 North Main
100 Farm Credit Banks Building
Wichita, KS 67202

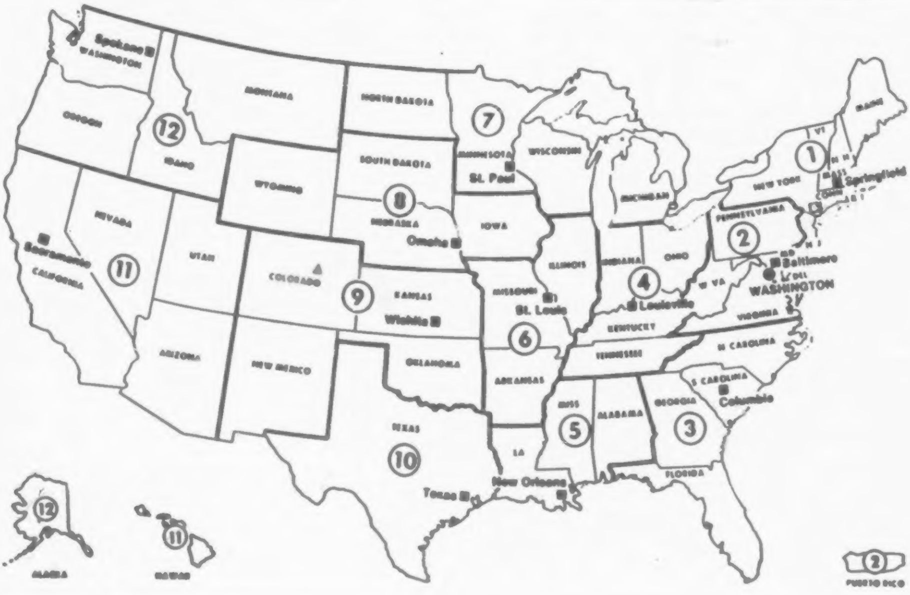
Farm Credit Banks of Texas
P.O. Box 15919
Austin, TX 78761

Farm Credit Banks of Sacramento
P.O. Box 13280-A
Sacramento, CA 95813

Farm Credit Banks of Spokane
W. 601 First Avenue
P.O. Box TAF-C5
Spokane, WA 99220

Central Bank for Cooperatives
P.O. Box 5110
Denver, CO 80217

- ● Farm Credit Administration
- □ Federal Farm Credit Banks Funding Corporation
- ▲ Central Bank for Cooperatives
  Farm Bank Service
- ■ Farm Credit Banks
  - Federal Land Bank
  - Federal Intermediate Credit Bank
  - Bank for Cooperatives


Spokane
WASHINGTON
OREGON
IDAHO
MONTANA
NORTH DAKOTA
SOUTH DAKOTA
MINNESOTA
St. Paul
WISCONSIN
MICHIGAN
NEW YORK
VT
N H
MAINE
MASS
Springfield
CONN
R I
PENNSYLVANIA
N J
MD
Baltimore
DEL
WASHINGTON
OHIO
INDIANA
ILLINOIS
IOWA
NEBRASKA
Omaha
WYOMING
NEVADA
Sacramento
CALIFORNIA
UTAH
COLORADO
KANSAS
Wichita
MISSOURI
St. Louis
Louisville
KENTUCKY
W VA
VIRGINIA
N CAROLINA
TENNESSEE
S CAROLINA
Columbia
GEORGIA
ALABAMA
MISS
ARKANSAS
OKLAHOMA
NEW MEXICO
ARIZONA
TEXAS
Texas
LA
New Orleans
FLORIDA
ALASKA
HAWAII
PUERTO RICO
①
②
③
④
⑤
⑥
⑦
⑧
⑨
⑩
⑪
⑫

QUESTIONS SUBMITTED BY SENATOR COCHRAN

Farm Economy

Question: What is your short-term and long-term outlook for the farm economy?

Answer: Domestic crop prospects are more uncertain than is typical for this time of year because of delayed plantings in the Corn Belt and continued drought in the Texas high plains cotton areas. Combined with relatively low feed grain stocks, mixed expectations characterize the short-term outlook. Livestock producers continue to be concerned about high feed costs and the availability of feedstuffs -- cost pressures for some are increasing as their need to locate alternative supplies is coming to a head. The odds are against a second consecutive year of serious drought through the heart of the Corn Belt; thus, a significant rebuilding of feed grain and soybean stocks appears likely, with lower season average farm prices during the upcoming marketing year.

The longer term outlook is not particularly bright -- the productive capacity of agriculture here and abroad exceeds the anticipated trend line of effective world demand. We can anticipate aberrations because of natural weather disruptions in major producing areas, but in general this situation suggests that some type of major change is needed, and it will be costly (to someone). A shift to greater market orientation would force some resources and producers out of production. A shift to greater production control could be costly to taxpayers, as well as to the more efficient producers. The latter would be particularly true if the cost were borne by the agricultural subsectors involved, rather than through the general treasury.

Increased Borrowing

Question: For FY 1985, the Banks for Cooperatives are anticipating a need for over a 100-percent increase in borrowing authority; the Federal Intermediate Credit Banks are anticipating a need for a 345-percent increase in borrowing authority; and Federal Land Banks are anticipating a 45-percent increased need for borrowing authority. Why do they need these increases? Does this reflect the increasing farm credit crunch?

Answer: The Farm Credit System is a private, cooperatively owned and operated lending institution that is not subject to any borrowing or lending limitations. The System raises its funds in credit markets through sales of securities offered by the Federal Farm Credit Funding Corporation. "Borrowing authority" is neither conferred nor required. The System anticipates an increased demand for loans in the current fiscal year and next year, but nothing like the projections cited.

At the present time, there is no agricultural credit crunch. Ample agricultural credit is available. However, because of the farm income crunch, many potential borrowers are not meeting the guidelines for creditworthiness established by private lenders.

Market Share of System Lending

Question: What percentage of total farm credit is provided by the Farm Credit System? Please provide a breakdown of the percentage of operating loans and real estate loans the FCS provided.

Answer: Total farm debt was estimated at $215 billion by January 1, 1984, down .6 percent from $216.3 billion outstanding on January 1, 1983. The FCS share of farm debt outstanding is $67.9 billion, or 31.6 percent of the total.

Volume and Market Share of Farm Real Estate Debt Outstanding by Lender, January 1, Selected Years 1970-1984*
$Billion and Percent

Year	Total		FLB		FmHA		Life Insurance Companies		Commercial Banks		Individuals and Others	
1970	$ 29.2	100%	$ 6.7	22.9%	$2.3	7.9%	$ 5.7	19.5%	$3.5	12.0%	$11.0	37.7%
1975	44.6	100%	13.4	30.0	3.2	7.2	6.3	14.1	6.0	13.4	15.8	35.3
1980	85.4	100%	29.6	34.7	7.1	8.3	12.2	14.3	8.6	10.1	27.9	32.6
1981	95.5	100%	35.9	37.6	7.7	8.1	12.9	13.5	8.7	9.2	30.2	31.6
1982	105.5	100%	43.6	41.3	8.7	8.3	13.1	12.4	8.4	7.9	31.8	30.1
1983	109.5	100%	47.2	43.1	9.1	8.3	12.8	11.7	8.4	7.7	32.0	29.2
1984	111.9	100%	48.2	43.1	9.5	8.5	11.4	11.4	9.1	8.1	32.3	28.9

*Debt includes that of operator households
r = revised p = preliminary f = forecast

Volume and Market Share of Farm Nonreal Estate Debt Outstanding by Lender, January 1, Selected Years 1970-1984*
$ Billion and Percent

Year	Total		Commercial Banks		PCAs		FICB-OFI		FmHA		CCC		Individuals and Others	
1970	$ 23.8	100%	$10.3	43.3%	$ 4.5	18.9%	$.2	.8%	$ .8	3.4%	$ 2.7	11.3%	$ 5.3	22.3%
1975	37.0	100	18.2	49.3	9.5	25.7	.4	1.1	1.0	2.7	.3	.8	7.5	20.3
1980	80.4	100	31.0	38.6	18.0	22.4	.7	.8	9.0	11.2	5.1	6.3	16.6	20.7
1981	86.4	100	31.6	36.5	19.6	22.7	.8	.9	11.8	13.6	5.0	5.8	17.7	20.5
1982	96.1	100	32.9	34.3	21.0	21.9	.9	.9	14.5	15.0	8.0	8.3	18.8	19.6
1983	106.8	100	36.1	33.8	20.1	18.8	.9	.8	14.8	13.8	15.4	14.4	19.5	18.3
1984	103.1	100	38.5	37.3	18.9	18.3	.8	.8	15.6	15.1	10.4	10.1	18.9	18.4

* Debt includes that of operator households
p = preliminary f = forecast

Number of Farmers Served

Question: How many farmers does the Farm Credit System serve?

Answer: On December 31, 1983, FLBs had 662,276 loans outstanding. PCAs had 340,831 members with loans outstanding. In addition to these loans, the BCs had loans outstanding to 3,313 cooperatives, mostly farmer-owned supply and marketing cooperatives. Because some farmers have more than one loan, the number of loans outstanding does not provide a complete answer to how many farmers are served. There are no figures on the absolute number of individuals with loans through the Farm Credit System.

Farm Credit System Employees

Question: How many people does the Farm Credit System employ? How does that relate to recent years?

Answer: At the end of 1983, there were 17,952 employees in the Farm Credit System nationwide. This compares with previous years as follows:

Year	Number of Employees	Increase in Employees	Percentage of Increase
1983	17,952	27	.001
1982	17,925	363	2.0
1981	17,562	1,991	12.8
1980	15,571	--	--

Refinancing

Question: How much of the Farm Credit System volume is for refinancing?

Answer: During 1983, 32.8 percent of the volume of PCA loans made was to refinance existing PCA loans. Fifty-three percent of the volume of FLB loans made was for refinancing existing loans.

Delinquency Rates

Question: What are the delinquency rates in the FCS banks?

Answer: On December 31, 1983, 7,767 FLB loans had some amount past due 90 days or more, 1.17 percent of the total volume of FLB loans. On the same date, PCAs in 11 of 12 Farm Credit districts had 4,122 loans past due 90 days or more, 1.21 percent of the number of loans outstanding.

Foreclosures

Question: How many foreclosures occurred in FY 1983? How many have occurred so far in FY 1984?

Answer: On December 31, 1983, 2,778 FLB loans totaling $572.4 million were in process of liquidation. PCA loans in process of liquidation totaled $471.1 million on that date. That is 2.4 percent of the amount of PCA loans outstanding. Loans in process of liquidation include all loans in terminal status, whether through legal action, voluntary conveyance or other means.

System Losses

Question: What were the losses for FCS banks?

Answer: Loan losses represent the final result of borrower financial difficulty that could not be overcome through loan servicing. These figures represent a loss to the System and its borrower-stockholders. As of December 31, 1983, the amount of net loan losses increased to $250.7 million, as compared to $172.6 million for the year ended December 31, 1982. Nevertheless, loan losses remain at a reasonable level compared to loans outstanding.

Federal Land Bank net losses for the year ended December 31, 1983, were $8.2 million, a figure representing .016 percent of loans outstanding. PCAs and FICBs realized $245.3 million in net losses on $20.1 billion in loans outstanding, or 1.22 percent for the year ended December 31, 1983. This was an increase from the previous year losses that represented .75 percent of loans outstanding. For the year ended December 31, 1983, the Banks for Cooperatives had gains of approximately $2.9 million, which was .031 percent of loans outstanding.

Credit Availability

Question: Do you see farmland values continuing to decrease? How will this affect the availability of farm credit?

Answer: Farmland values on April 1, 1984, declined an average 1 percent from values 1 year earlier, the third such decline in as many years. However, gains in average value of farmland were recorded in 24 states, while 17 states suffered declining values and 7 states showed no discernible change in the average value of farmland. This pattern underscores an important point: there is no national land market. Land markets, and their characteristics such as price, quality, availability, demand, and alternative uses, are essentially local in nature. Some farmland values will continue to decline, some will increase, while others will remain unchanged. For those states experiencing the most dramatic reduction in average value -- Iowa and Nebraska -- few fundamental developments can be expected in the year to come to dramatically reverse this trend. However, it must be emphasized that reported figures refer to average values; even in those and surrounding Corn Belt states, many land transactions will be negotiated at appreciated values.

Reduction in the asset value of land has the effect of weakening the financial position of borrowers and therefore reducing their capacity to incur future debt. This would not affect the aggregate availabililty of capital but would tend to limit its use.

Forbearance Policy

Question: What is FCS doing to stick with a borrower who is facing especially hard times because a decrease in land value has crippled his credit status?

Answer: Lenders must review loans to financially stressed borrowers and choose between continued forbearance and initiating collection actions that may ultimately lead to foreclosure. Each succeeding year of financial stress erodes not only the borrower's current financial condition but also his ability to recover. Nevertheless, foreclosure should be the last resort for any lender, and a strong forbearance policy continues to guide the lending operations of the Farm Credit System institutions. In February 1983, the Federal Farm Credit Board adopted a statement recognizing the serious plight of many in our agricultural community and called on System institutions to stay with borrowers as long as there is a reasonable possibility for him to work out of his financial difficulties and reestablish a viable farm business.

Bank Move

Question: Has the move of the land bank from New Orleans to Jackson, Mississippi, been successfully completed?

Answer: The move is scheduled for the third week of August 1984 and should be completed by the end of that month.

Debt-to-Income Ratio

Question: What was the debt-to-income ratio for Fiscal Year 1983? What do you anticipate it will be this Fiscal Year and for Fiscal Year 1985?

Answer: Farm debt and income data are developed and presented on a calendar year rather than a fiscal year basis. The debt-to-income ratio was about 5.4 for 1983, using net cash farm income as the income series. The ratio is likely to increase to over 6 this year, and there is no reason to project a significant change for 1985.

Loans Outstanding

Question: Please provide a current total number of FCS loans outstanding as compared with this time last year.

Answer: Our last data on loans outstanding are for the end of April. The following is a comparison of lending activity with the end of April 1983.

LOANS OUTSTANDING: (BILLIONS)

	4/30/84	4/30/83	% Change
FLB	$51.055	$50.687	+ 0.7
PCA	18.915	20.234	- 6.5
BC	10.321	9.259	+11.5
FICB/OFI	0.839	0.841	- 0.3
FCS	$81.131	$81.022	- 0.1

Administrative Expenses

Question: What was the ratio of administrative expenses to loans made in Fiscal Year 1983? What do you project for Fiscal Year 1984 and Fiscal Year 1985?

Answer: The ratio was .00027. It is difficult to project this ratio accurately because it depends on changes in loan volume.

Budget Submissions

Question: Please explain how the limitation on administrative expenses of $22,092,000 for Fiscal Year 1985 was derived.

Answer: The limitation on administrative expenses for 1985 was derived in accordance with instructions in OMB Circular A-11. Budget submissions and justifications from all component offices of FCA were reviewed by top management and approved by the Federal Farm Credit Board before submission to OMB.

Import/Export Financing

Question: How much do FCS banks participate in import/export financing.

Answer: The Banks for Cooperatives currently have $758 million outstanding that represents financing of farmer cooperative importing or exporting of agricultural products. Almost 100 percent of this amount is guaranteed under the CCC's GSM-102 program or by the Foreign Credit Insurance Association. Projections are for this amount to reach $1 billion by the end of 1984.

FARM CREDIT ADMINISTRATION (WITH OPEN RECOMMENDATIONS)

TITLE: Interim Report on the Implementation of the Farm Credit Act Amendments of 1980
RPTNO: GGD-83-26 DOCUMENT DATE: 03/07/83
ORGANIZATION CONCERNED:
Farm Credit Administration
PRIMARY BUDGET FUNCTION:
806.0/General Government: Other General Government
LAW AUTHORITY:
Farm Loan Act
P.L. 64-158
39 Stat. 360
Agricultural Credit Act
P.L. 67-503
42 Stat. 1454
Farm Credit Act of 1933
P.L. 73-75
48 Stat. 257
Farm Credit Act of 1953
P.L. 83-202
67 Stat. 390
Farm Credit Act of 1971
P.L. 92-181
12 U.S.C. 2260
85 Stat. 583
Farm Credit Act Amendments of 1980
P.L. 96-592
94 Stat. 3437
P.L. 94-184
P.L. 95-443
89 Stat. 1060
92 Stat. 1066

BACKGROUND:

GAO undertook a review of 13 programs pursuant to the provisions of the Farm Credit Act Amendments of 1980 which require GAO to conduct evaluations of the programs and activities authorized by the amendments and to make an interim report to Congress.

FINDINGS:

The 1980 amendments authorized the Farm Credit System's district Banks for Cooperatives to offer financial services related to exporting and importing agricultural commodities. GAO found that the Farm Credit Administration (FCA) and the Banks for Cooperatives encountered a number of problems in implementing the international banking services program. GAO found that FCA does not have the capability to independently evaluate country risk associated with the extensions of credit by the Central Bank for Cooperatives under the international banking services program. FCA needs this capability to adequately examine the Central Bank and to ensure its financial soundness and integrity. The 1980 amendments also sought to enhance the opportunity for commercial banks and other agricultural lenders to obtain funds by discounting agricultural loans with the Federal Intermediate Credit Banks. GAO found that certain aspects of these regulations lack specificity in defining eligibility for access to the discounting services. The 1980 amendments require that each association in the Farm Credit System prepare a program for furnishing credit and services to young, beginning, and small farmers and ranchers. GAO found that FCA has not given district banks specific guidance on various types of qualifying programs. Because a reporting system has not been developed for this program, program results may be difficult to measure.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Governor, FCA, should establish specific program goals so that progress toward meeting these goals can be measured and reported.
STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.
TARGET:
Farm Credit Administration

RECOMMENDATION: The Governor, FCA, should disseminate information to district banks and associations on the types of programs they should consider in developing individual young, beginning, and small farmer programs.
STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.
TARGET:
Farm Credit Administration

RECOMMENDATION: The Governor, FCA, should study the current needs of young, beginning, and small farmers and ranchers and identify what programs would meet these needs.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.
TARGET:
Farm Credit Administration

RECOMMENDATION: The Governor, FCA, should evaluate past young farmer programs and identify what programs were successful.
STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.
TARGET:
Farm Credit Administration

RECOMMENDATION: The Governor, FCA, as part of his responsibilities to supervise and examine the Farm Credit System, should closely monitor the implementation of the Other Financing Institution Program in each Farm Credit district to ensure that Other Financing Institutions, which are significantly involved in agricultural lending and are otherwise eligible, are given the opportunity to enhance their utilization of the financial services of the Federal Intermediate Credit Banks and better serve the needs of agriculture. The monitoring should specifically include application of the regulations and policies dealing with agricultural loan volume, debt-to-capital ratio, access to national and regional money markets, investment in the Federal Intermediate Credit Bank, and gross loan-to-deposit requirements.
STATUS: Action completed and verified.
TARGET:
Farm Credit Administration

RECOMMENDATION: The Governor, FCA, should determine the feasibility of using the results of the Federal bank regulatory agencies' country risk studies or have FCA develop such studies on its own.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Farm Credit Administration

RECOMMENDATION: The Governor, FCA, should establish minimum requirements which district Banks for Cooperatives must meet before they are allowed to undertake an international banking services program.
STATUS: Action completed and verified.
TARGET:
Farm Credit Administration

COMMODITY FUTURES TRADING COMMISSION (WITH OPEN RECOMMENDATIONS)

TITLE: Better Use of Information Technology Can Reduce the Burden of Federal Paperwork
RPTNO: GGD-83-39 DOCUMENT DATE: 04/11/83
ORGANIZATION CONCERNED:
Office of Management and Budget
Department of Commerce
Department of Health and Human Services
Commodity Futures Trading Commission
Food and Drug Administration
Department of Commerce: Bureau of the Census
Health Care Financing Administration
Office of Management and Budget: Office of Information and Regulatory Affairs
PRIMARY BUDGET FUNCTION:
806.0/General Government: Other General Government
LAW AUTHORITY:
Paperwork Reduction Act of 1980
Privacy Act of 1974
5 U.S.C. 552a

BACKGROUND:
In response to a congressional request, GAO reviewed four data collection activities to determine the potential benefits in terms of information technology.

FINDINGS:
GAO found that increased use of information technology would reduce the Federal paperwork burden and improve the efficiency of the data collection activities. While the extent of the potential benefits varied, opportunities exist in all of the reviewed cases for better use of information technology. Some recent actions have been taken by Federal managers to realize these benefits, but more could be done. GAO found that Federal managers at all levels need to be more attentive to the use of information technology as a means of reducing reporting and paperwork problems. Agency officials stated that the lack of guidance from the Office of Management and Budget (OMB) is one of the prime reasons individual agency policies and procedures have not been promulgated. GAO found that agencies need: (1) strategies to implement and control automated data

submission programs; and (2) information and marketing analyses to realize the potential for increasing automated submissions. In addition, GAO found that Federal managers have not maximized the benefits of automated programs once developed. GAO found that the number of automated Medicare claims could be increased by about 4 million, which would save about $1.3 million. GAO also found that the Census Bureau could almost double its volume of automated submissions and save about $183,000. In the two remaining case studies, GAO identified potential improvements through better use of technology in the Commodity Futures Trading Commission and the Food and Drug Administration (FDA).

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Director of OMB should amend the forms clearance process so that, except under exigent circumstances, agencies must consider whether an increase in automated submission is feasible and cost effective. If so, the agency should submit a plan describing how such an increase would be accomplished.

STATUS: Action completed and verified.

TARGET:

Office of Management and Budget

RECOMMENDATION: The Director of OMB should establish written policies encouraging the use of information technologies as a means of reducing the burden on the Government and the public and improving the efficiency and effectiveness of agency operations.

STATUS: Action completed and verified.

TARGET:

Office of Management and Budget

RECOMMENDATION: The Chairman of the Commodity Futures Trading Commission should contact industry service bureaus and encourage program participation on behalf of their clients.

STATUS: Action completed and verified.

TARGET:

Commodity Futures Trading Commission

RECOMMENDATION: The Chairman of the Commodity Futures Trading Commission should promote and publicize the automated program and its varied capabilities to receive data in machine readable form.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Commodity Futures Trading Commission

RECOMMENDATION: The Secretary of Commerce should direct the Census Bureau to aggressively promote the automated program through personalized followup of inquiries made by respondents and by contacting potential candidates identified through the survey.

STATUS: Action completed and verified.

TARGET:

Department of Commerce

RECOMMENDATION: The Secretary of Commerce should direct the Census Bureau to prepare promotional literature for managers detailing the program's technology options and the benefits of program participation.

STATUS: Action completed and verified.

TARGET:

Department of Commerce

RECOMMENDATION: The Secretary of Commerce should direct the Census Bureau to conduct a detailed survey of at least the high volume Shipper's Export Declaration respondents to determine capability and interest in the automated program.

STATUS: Action completed and verified.

TARGET:

Department of Commerce

RECOMMENDATION: The Secretary of Health and Human Services should direct the FDA Commissioner to revise procedures for collecting data for new drugs to allow submission of a computer printout of the data instead of a form, for drug manufacturers with this capability.

STATUS: Action completed and verified.

TARGET:

Department of Health and Human Services

RECOMMENDATION: The Secretary of Health and Human Services should direct the FDA Commissioner to establish procedures to use a turnaround document to collect drug product listing changes, instead of using forms.

STATUS: Action completed and verified.

TARGET:

Department of Health and Human Services

RECOMMENDATION: The Secretary of Health and Human Services should direct the Administrator of HCFA to revise its intermediary performance evaluation criteria to reflect an intermediary's contribution to the increased use of automation in Medicare billing.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Health and Human Services
RECOMMENDATION: The Secretary of Health and Human Services should direct the Administrator of HCFA to clarify the roles and responsibilities of regional staff to ensure intermediaries' compliance with information technology guidelines and regulations.
STATUS: Action completed and verified.
TARGET:
Department of Health and Human Services
RECOMMENDATION: The Secretary of Health and Human Services should direct the Administrator of the Health Care Financing Administration (HCFA) to revise its Medicare regulations to require intermediaries to accept submissions of Medicare claims in an automated form where it is cost effective to the Medicare program.
STATUS: Recommendation valid/action not intended.
STATUS COMMENTS: No action will be taken by the agency because Medicare regulations do not require revision to accomplish the objective of this recommendation. In December 1982, HCFA issued a transmittal that requires Medicare intermediaries to accept electronic claims data when cost effective.
TARGET:
Department of Health and Human Services
RECOMMENDATION: The Director of OMB should direct the Office of Information and Regulatory Affairs, as part of its continuing oversight responsibilities of Federal information management activities, to periodically review Federal agencies' efforts to implement and reassess programs targeted at increasing automated submission of required data.
STATUS: Action completed and verified.
TARGET:
Office of Management and Budget

U. S. DEPARTMENT OF AGRICULTURE (WITH OPEN RECOMMENDATIONS)

TITLE: Opportunities for Greater Cost Effectiveness in Public Law 480, Title I Food Purchases
RPTNO: NSIAD-84-69 DOCUMENT DATE: 04/19/84
ORGANIZATION CONCERNED:
Department of Agriculture
Department of Agriculture: Foreign Agricultural Service
Agricultural Stabilization and Conservation Service
PRIMARY BUDGET FUNCTION:
352.1/Agriculture: Import-Export Issues
LAW AUTHORITY:
Agricultural Trade Development and Assistance Act of 1954
P.L. 83-480
7 U.S.C. 1691 et seq.
7 C.F.R. 17.6(b)(2)
BACKGROUND:
GAO discussed opportunities to improve the effectiveness of subsidized food purchases by recipient, developing countries under the Public Law 480, Title I program.
FINDINGS:
Under the program, the Department of Agriculture in fiscal year (FY) 1982 financed about $722 million worth of purchases of agricultural commodities by developing countries. GAO examined 54 of the 86 purchases made in FY 1982 and found that opportunities exist to better control or reduce program costs. In 26 percent of the cases GAO reviewed, buyer purchasing practices were not conducive to achieving the full benefits of open competitive tendering or obtaining the lowest prices. Delays in signing Title I agreements and overlapping purchases and donations caused prices to rise. GAO found that the Foreign Agricultural Service is financing price premiums for individualized and nonstandard specifications when lower cost alternatives are available. GAO noted that the legal requirement that the United States receive a fair share of the increase in recipients' commercial imports over time is not monitored or emphasized. Finally, GAO concluded that the credibility of the price evaluation system is questionable and that the Stabilization and Conservation Service needs to survey a broader cross-section of the industry to better establish market prices for certain commodities.
RECOMMENDATIONS TO AGENCIES
RECOMMENDATION: The Secretary of Agriculture should direct the Administrator, Foreign Agricultural Service, to: (1) disapprove any Title I bid price that exceeds an FA-5P export market price for the comparable commodity specification and shipping mode and (2) develop a system for evaluating Title I rice prices that uses the broadest practical range of information sources.

STATUS:
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should direct the Administrator, Agricultural Stabilization and Conservation Service, to strengthen the export market price-gathering function of the Kansas City Commodity Office for wheat flour and spring wheat.
STATUS:
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should direct the Administrator, Foreign Agricultural Service, to more carefully monitor import statistics and emphasize the legislative requirements to take reasonable precautions to safeguard the usual U.S. markets and to take steps to ensure the United States a fair share of any increase in commercial purchases in countries which have rising imports.
STATUS:
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should direct the Administrator, Foreign Agricultural Service, to require that recipients finance any additional premiums for individualized or nonstandard specifications unless a definite need has been established and justified.
STATUS:
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should direct the Administrator, Foreign Agricultural Service, to: (1) work for earlier signings of Title I annual agreements and a wider spread of procurements over the year; (2) establish a required minimum amount of time between (a) the issuance of invitations for bids and bid openings and (b) bid openings and the first delivery dates; (3) reemphasize the requirement of the Title I regulations that buyers select the lowest responsive bids and that the Foreign Agricultural Service document the justification for any exceptions; and (4) eliminate close or overlapping Title I and Title II, Public Law 480 purchases.
STATUS:
TARGET:
Department of Agriculture

TITLE: Foreign Currency Purchases Can Be Reduced Through Greater Use of Currency Use Payments Under Public Law 480 Commodity Sales Agreements
RPTNO: NSIAD-84-76 DOCUMENT DATE: 04/10/84
ORGANIZATION CONCERNED:
Department of the Treasury
Department of State
Department of Agriculture
Agency for International Development
Department of Agriculture: Commodity Credit Corp.
PRIMARY BUDGET FUNCTION:
151.0/International Affairs: Foreign Economic and Financial Assistance
LAW AUTHORITY:
P.L. 83-480
BACKGROUND:
GAO examined the U.S. collections of local currencies payable under provisions in certain commodity sales agreements to see whether they are being collected in a timely manner.
FINDINGS:
GAO found that amounts owed remained uncollected while needed local currencies were purchased with dollars from commercial sources. Purchases of local currencies could have been reduced by $29 million between October 1981 and September 1983 by collecting the amounts payable. Since the dollar equivalent of collections is credited to the Commodity Credit Corporation, the Corporation may have to reduce its program level or obtain necessary funds from other sources, if receipts are less than projected. If amounts uncollected as of September 1983 are collected, they may reduce further dollar purchases; if they remain uncollected, their equivalent amounts are payable in dollars when the credit installments become due. GAO found that no system has been established to ensure timely currency use payments collections. The collections are the responsibility of individual State Department missions. However, the missions do not directly benefit from the collection efforts. Agreements for fiscal year 1982 with seven countries where local currencies were purchased contained no currency use payment provisions because of political reasons or oversight. In addition, greater use of these provisions may be constrained by the conflicting interests of the agencies involved.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Administrator of the Agency for International Development (AID) should collaborate with other members of the Subcommittee in establishing interagency currency use payment guidelines. Until such time as overall guidelines have been established, the Administrator should ensure that the AID guidelines are applied in a manner that balances the AID development mandate with the desirability of reducing dollar outlays to meet U.S. local currency needs.

STATUS:
TARGET:
Agency for International Development

RECOMMENDATION: The Secretary of State should issue a directive to the missions to expedite commodity use payment collections by: (1) requesting payments promptly to satisfy local currency needs in accordance with Treasury notifications of commodity use payment availability and collection guidelines; and (2) obtaining approval from the Treasury and the Subcommittee on Food Aid before delaying collections. In transmitting information to the missions regarding future commodity use payment availability and collection procedures for individual agreements, the Secretary should refer the missions to this directive.

STATUS:
TARGET:
Department of State

RECOMMENDATION: The Secretary of the Treasury should: (1) establish procedures for systematically identifying delinquent local currency payments, sending timely reminders to the missions, and bringing delinquencies before the Subcommittee on Food Aid when negotiating agreements for additional commodities; and (2) promote greater use of currency use payment provisions in commodity sales agreements to generate local currencies for U.S. needs.

STATUS:
TARGET:
Department of the Treasury

RECOMMENDATION: The Secretary of Agriculture, as Chairman of the Subcommittee on Food Aid, should take the lead in establishing guidelines and procedures for: (1) collecting currency use payments on a timely basis; and (2) determining the extent to which needed local currencies will be obtained through the Public Law 480 commodity sales program rather than through dollar outlays.

STATUS:
TARGET:
Department of Agriculture

TITLE: More Attention Needed in Key Areas of the Expanded Crop Insurance Program

RPTNO: RCED-84-65 DOCUMENT DATE: 03/14/84

ORGANIZATION CONCERNED:
Department of Agriculture: Federal Crop Insurance Corp.
Department of Agriculture

PRIMARY BUDGET FUNCTION:
351.0/Agriculture: Farm Income Stabilization

LAW AUTHORITY:
Federal Crop Insurance Act of 1980
P.L. 96-365

BACKGROUND:

GAO reviewed actuarial practices of the Federal Crop Insurance Corporation (FCIC), the rates at which private sector companies are compensated for selling and servicing crop insurance, and the distribution of gains and losses on crop insurance sold by private companies and reinsured by FCIC.

FINDINGS:

Congress has expressed concern regarding FCIC progress in implementing the Federal Crop Insurance Act of 1980, the effectiveness of program changes when insurance losses in 1981 and 1982 are considered, and the annual increases in FCIC appropriation requests. GAO found that, following enactment of the legislation, FCIC made substantial progress in expanding the program and involving the private sector in selling and servicing crop insurance. However, FCIC did not give appropriate attention to ensure that its insurance was actuarially sound, did not carefully evaluate its actions involving the private sector, nor make a detailed cost study when it established the compensation rates for the private sector companies' sales and service activities. Under the expanded reinsurance program, private insurance companies obtain reinsurance coverage from FCIC as protection against part of the risk of insuring crops. Allowed annual revisions to the standard reinsurance agreement have resulted in increased costs and risks to FCIC. GAO noted that FCIC has initiated numerous actions that should improve the insurance paperwork submitted by independent insurance agents and taken steps to develop a comprehensive quality control program and a plan for an independent audit of the reinsured companies.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should direct the FCIC Board of Directors and Manager to tailor the reinsurance agreements to each company's area of operation and base the gain and loss formula on the loss experience for the geographic area in which the company operates.

STATUS:
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the FCIC Board of Directors and Manager to moderate further expansion of the reinsurance program until the operation of the current program can be evaluated to ensure that it is cost effective for both the Government and the insurance companies.

STATUS:
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the FCIC Board of Directors and Manager to evaluate the rates established for compensating the private sector in relation to the current or expected premium base and the private sector's costs to provide such services; the rate structure should, if warranted, be adjusted to provide reasonable compensation to the private sector for its services and, at the same time, be cost effective to the Federal Government.

STATUS:
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the FCIC Board of Directors and Manager to consider the potential for obtaining actual crop yield data and using such data to establish homogeneous risk groups and the proper relationships among each group's yields and risk rates.

STATUS:
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the FCIC Board of Directors and Manager to give increased attention to completing actuarial reports depicting crop year 1980 and 1981 insurance experiences in order that the review and updating of the FCIC crop insurance programs might be expedited.

STATUS:
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the FCIC Board of Directors and Manager to correct any inaccuracies that may be found in the recently established county insurance offers of FCIC and, if necessary, correct its older county insurance offers that may be inappropriate in light of the increased risk that may be associated with implementing the legislative requirements for higher coverages.

STATUS:
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the FCIC Board of Directors and Manager to moderate any further expansion so that it will not detract from the actuarial division's ability to update the crop insurance offers.

STATUS:
TARGET:
Department of Agriculture

TITLE: Improved Administration of Special Surplus Dairy Product Distribution Program Needed

RPTNO: RCED-84-58 DOCUMENT DATE: 03/14/84

ORGANIZATION CONCERNED:
Department of Agriculture: Food and Nutrition Service
Department of Agriculture

PRIMARY BUDGET FUNCTION:
351.0/Agriculture: Farm Income Stabilization

DESCRIPTIVE NOTE:
Refer to Testimony, April 25, 1984, Accession Number 123992.

LAW AUTHORITY:
Agricultural Act of 1949
Dairy Production Stabilization Act of 1983
P.L. 98-180
Agriculture and Food Act of 1981
P.L. 97-98
Commodity Credit Corporation Charter Act
Agricultural Trade Development and Assistance Act of 1954
Temporary Emergency Food Assistance Act of 1983
P.L. 98-8

P.L. 97-6
P.L. 97-253
P.L. 98-92

BACKGROUND:

In response to a congressional request, GAO reviewed the Department of Agriculture's (USDA) program for distributing surplus dairy products to the needy. Specifically, GAO was asked to determine whether program administration adequately ensured that products were provided only to the needy and to develop estimates on the extent to which donated products displaced commercial sales.

FINDINGS:

GAO believes that the absence of national program guidelines on key issues, such as the target population to be served and controls to ensure that participants are eligible, contributed to widely varying programs among the States and, in some cases, among localities. GAO found that: (1) three of the eight States studied had not established any needs tests for program participants; (2) distribution frequencies and quantities of products made available to participants varied; (3) controls over the distribution of products were generally inadequate; and (4) until April 1983, when the quantities of products made available were cut back, the States were able to order virtually unlimited amounts of dairy products. As a result, abuses occurred and displacement of commercial sales was greater than necessary. Legislation enacted in September 1983 required the establishment of program criteria and required the Department of Agriculture to: (1) provide commodities in quantities which can be used without waste; (2) ensure that the commodities provided do not displace commercial sales; and (3) minimize the paperwork requirements imposed on distribution agencies. To the extent that products given away displace commercial sales, they increase market surpluses which USDA is obligated to purchase under the Dairy Price-Support Program and increase USDA inventories of dairy products. GAO estimated that about 31 percent of the cheese distributed from December 1981 to April 1983 in the eight States would have displaced commercial sales of cheese.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should direct the FNS Administrator to make sure that the final regulations issued by FNS minimize program abuse by requiring States to develop reasonable program controls. Such controls should, as a minimum, require program participants to provide identification and evidence of eligibility.

STATUS:
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Food and Nutrition Service (FNS) Administrator to make sure that the final regulations issued by FNS, at a minimum, establish some parameters on the eligibility criteria established by States to help create more equitable State and local programs and to help minimize the extent of commercial sales displacement resulting from the program. In establishing such parameters, FNS should consider the amount of commercial sales displacement likely to occur at various household income levels on the basis of data compiled through USDA household food consumption surveys.

STATUS:
TARGET:
Department of Agriculture

TITLE: Government Could Save Millions by Revising Its Purchase Specifications for Ground Beef
RPTNO: RCED-84-29 DOCUMENT DATE: 02/21/84

ORGANIZATION CONCERNED:
Department of Agriculture
Department of Defense
Veterans Administration
Department of Agriculture: Food Safety and Inspection Service

PRIMARY BUDGET FUNCTION:
351.0/Agriculture: Farm Income Stabilization

LAW AUTHORITY:
School Lunch Act
42 U.S.C. 1755
7 U.S.C. 612c
Interim Federal Specification PP-B-2120

BACKGROUND:

The major Federal agencies that buy ground beef require that the product meet certain formulation and certification specifications; some of these specifications increase the material costs and restrict the flexibility of suppliers without increasing the quality, flavor, or nutritional value of the meat. GAO reviewed this matter to determine whether the Federal Government could buy ground beef at a lower cost.

FINDINGS:

Ground beef suppliers and meat experts told GAO that, despite the Government's formulation and certification requirements for its meat purchasing, the commercial product, which accounts for more than 95 percent of U.S. ground beef production, is adequate for the Government's use. Commercial customers rely on the Department of Agriculture's Food Safety and Inspection Service (FSIS) to ensure the quality of their meat products. The Government could have saved about $20 million of the $181 million it spent for ground beef in fiscal year 1982 if it had purchased commercial ground beef. Further, if the responsibility for product quality assurance were transferred to FSIS, at least 2 cents per pound could be saved by eliminating some duplication in the certification process.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should modify the Federal purchase specification for ground beef to enable the Government to purchase ground beef more economically.

STATUS:

TARGET:

Department of Agriculture

TITLE: Federal and State Initiatives Needed To Improve Productivity and Reduce Administrative Costs of the Aid to Families With Dependent Children and Food Stamp Programs

RPTNO: AFMD-84-18 DOCUMENT DATE: 02/02/84

ORGANIZATION CONCERNED:

Department of Agriculture

Department of Health and Human Services

PRIMARY BUDGET FUNCTION:

806.0/General Government: Other General Government

LAW AUTHORITY:

H. Rept. 96-285

BACKGROUND:

Administrative costs in the Aid to Families With Dependent Children (AFDC) and Food Stamp programs have increased at a more rapid pace then benefit payments to recipients. GAO reviewed the processing of AFDC and Food Stamp applications at 15 welfare offices in 8 states. This review was based on a comparison of the productivity of these offices. GAO also examined the impact that inconsistent Federal criteria for determining an applicant's income and assets, and different Federal time periods for processing AFDC and Food Stamp cases, have on productivity.

FINDINGS:

From its review, GAO found that productivity rates of workers directly involved in processing AFDC and Food Stamp applications varied widely among the 15 welfare offices. This variance resulted primarily from processing practices, which included case-processing methods, use of computers, management expectation of employee performance, and efforts to verify applicants' data. Although the Department of Health and Human Services considered demographic factors to be a key cause of productivity variances in the AFDC program, GAO determined that they did not have a significant impact on the 15 offices. In addition, GAO found that: (1) Federal requirements for determining an applicant's income and assets hinder State and local case-processing productivity; and (2) Federal agencies need to emphasize productivity in much the same way as they have emphasized reducing payment errors.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretaries of the Departments of Agriculture and Health and Human Services should formulate uniform Federal financial requirements for measuring incomes and assets, setting common time periods for processing applications and closing out cases, and proposing legislative change as necessary for congressional action.

STATUS:

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretaries of the Departments of Agriculture and Health and Human Services should formulate uniform Federal financial requirements for measuring incomes and assets, setting common time periods for processing applications and closing out cases, and proposing legislative change as necessary for congressional action.

STATUS:

TARGET:

Department of Health and Human Services

RECOMMENDATION: The Secretaries of the Departments of Agriculture and Health and Human Services should establish a joint mechanism for identifying the best operating practices, including changes in Federal laws and regulations, that will facilitate prompt, accurate, and efficient processing for both programs.

STATUS:

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretaries of the Departments of Agriculture and Health and Human Services should establish a joint mechanism for identifying the best operating practices, including changes in Federal laws and regulations, that will facilitate prompt, accurate, and efficient processing for both programs.

STATUS:
TARGET:
Department of Health and Human Services

RECOMMENDATION: The Secretaries of the Departments of Agriculture and Health and Human Services should establish a nationwide productivity measurement and reporting system for the AFDC and Food Stamp programs.

STATUS:
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretaries of the Departments of Agriculture and Health and Human Services should establish a nationwide productivity measurement and reporting system for the AFDC and Food Stamp programs.

STATUS:
TARGET:
Department of Health and Human Services

TITLE: Agriculture's Soil Conservation Programs Miss Full Potential in the Fight Against Soil Erosion
RPTNO: RCED-84-48 DOCUMENT DATE: 11/28/83

ORGANIZATION CONCERNED:
Department of Agriculture
Agricultural Stabilization and Conservation Service
Soil Conservation Service
Department of Agriculture: Agricultural Research Service

PRIMARY BUDGET FUNCTION:
302.0/Natural Resources and Environment: Conservation and Land Management

DESCRIPTIVE NOTE:
Refer to CED-77-30, February 14, 1977, Accession Number 100007.

LAW AUTHORITY:
Soil and Water Resources Conservation Act of 1977
16 U.S.C. 590a et seq

BACKGROUND:

GAO reported on those aspects of the Department of Agriculture's (USDA) three major conservation programs which deal with soil erosion, including: (1) the seriousness of soil erosion; (2) USDA bases for allocating resources to, and measuring the results of, the programs; (3) possible changes that could improve the program's effectiveness; and (4) USDA followup on previous report recommendations.

FINDINGS:

USDA has estimated that about 6.5 billion tons of soil erode annually and that conservation programs are not keeping up with the problem. Data are not presently available to give a clear estimate of the consequences and costs of erosion or to enable allocations of resources to be made in such a way that Federal conservation programs obtain the greatest benefit for the resources spent. USDA decisions for allocating resources to combat soil erosion have generally not been predicated on factors directly linked to minimizing erosion's harmful effects. USDA plans to modify its resource allocation approaches to base judgments on erosion abatement needs on the extent of soil displacement. It may be some time before USDA is able to obtain the optimum data needed on erosion's harmful effects and to allocate soil conservation resources on that basis. However, some improvements for more effective use of resources at local levels are possible in the near term. GAO found that some disagreement exists as to whether soil erosion could be substantially reduced through more widespread use of conservation tillage farming methods. Finally, GAO questioned the purposes of USDA cost sharing of conservation practices in certain situations, but found that USDA policy has been changed in this area to meet the specifications of a previous GAO report.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should require that specific and detailed guidance, coupled with assistance approval certifications, be established and used at all State and local levels. This guidance should ensure that the Government does not cost share practices primarily used to enhance production or defray costs that are, or should be, part of normal farming or ranching operations, rather than to provide enduring conservation benefits.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should revise CRES data analysis procedures to ensure that the combined soil erosion reduction benefits of several conservation practices are not attributed to a single practice when conservation practice cost/benefit tables are developed.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should reassess research priorities concerning conservation tillage to ensure that allocated resources sufficiently address the needs identified in the January 1983 SCS research needs report.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should expand the ASCS variable-rate cost-share pilot project as quickly as practicable to (1) obtain a representative sample of all counties where the Universal Soil Loss and Wind Erosion Equations' formulas can be used; (2) expand the variable-rate concept programwide if test results are favorable; and (3) reorient resource allocation at the local level using CRES cost effectiveness as the short-term criterion and reductions in erosion's harmful effects as the long-term criterion.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should require that SCS include in its report to the local ASCS committee, where applicable, a list of alternative practices that could effectively address an applicant's erosion problem.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should require that SCS test the feasibility of variable-rate cost sharing for its Great Plains Conservation Program.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should require that The Agricultural Stabilization and Conservation Service (ASCS) provide local ASCS committees with Conservation Reporting and Evaluation System (CRES) generated cost/benefit data, statistically significant at the local level, for all approved soil conservation cost-sharing practices as soon as these data become available and require that these data be used as a basis for future decisions on providing ASCS conservation assistance.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should establish a policy that will: (1) recognize that the USDA primary soil conservation objective is to reduce erosion's harmful effects as opposed to simply achieving reductions in soil displacement; and (2) require USDA agencies to allocate conservation funds according to a prioritization of erosion's harmful effects at the earliest possible time. Similar approaches would need to be followed in the allocation and use of conservation funds at State and local levels.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should require the Agricultural Research Service (ARS) to reassess its research needs priorities regarding the relative position of soil conservation research within its overall research program as well as erosion/productivity research within the soil conservation program. Such a reassessment should: (1) ensure that allocated resources sufficiently address the severity of erosion's threat to the Nation's long-term cropland and productivity; (2) consider and clearly describe how the ARS program will address the erosion/productivity research needs described in the Soil Conservation Service's (SCS) January 1983 research needs report; and (3) address the need to resolve the issue concerning the degree to which various kinds of soils can tolerate erosion before degradation occurs.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture

TITLE: USDA's Oversight of State Meat and Poultry Inspection Programs Could Be Strengthened
RPTNO: RCED-84-23 DOCUMENT DATE: 10/21/83

ORGANIZATION CONCERNED:
Department of Agriculture
Department of Agriculture: Food Safety and Inspection Service

PRIMARY BUDGET FUNCTION:
352.0/Agriculture: Agricultural Research and Services

LAW AUTHORITY:
Meat Inspection Act
Poultry Products Inspection Act
Wholesome Meat Act
21 U.S.C. 601 et seq.
Wholesome Poultry Products Act
21 U.S.C. 451 et seq.
H.R. 1795 (98th Cong.)
S. 593 (98th Cong.)

BACKGROUND:

In response to a congressional request, GAO reviewed the Department of Agriculture's (USDA) oversight of State meat and poultry inspection programs to determine whether USDA certification procedures conform to the authorizing legislation and to evaluate the methods used in special USDA internal review studies of State inspection effectiveness. In addition, GAO summarized the results of USDA ratings of State-inspected plants to identify trends and the relative standings of State programs from 1980 through 1982.

FINDINGS:

Federal legislation gives USDA discretion in determining whether State programs are equal to the Federal program. GAO believes that the USDA certification procedures are reasonable and consistent with legislative requirements. However, GAO identified several ways of making the certification procedures more effective. The Food Safety and Inspection Service has proposed substantial changes to its State program review guidelines which, if implemented, would establish a specific policy regarding frequency and scope of State-inspected plant followup visits. However, GAO believes that other proposed changes would strengthen Federal evaluations of State programs. The basic methods used in an Inspection Service internal review to determine how State-inspected review results compared with the results of federally inspected plant review results were sound, but GAO could not determine whether the results were valid.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should direct the Administrator of the Food Safety and Inspection Service to emphasize to circuit supervisors the importance of accurately reporting Federal plant review results and require that area supervisors place special emphasis on this area during their normal oversight of circuit supervisor performance.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Administrator of the Food Safety and Inspection Service to use comparisons of State and Federal plant deficiency rates when certifying State programs. This should be done by using the comparisons either as a general factor considered in reaching an overall judgment on a State's program or by using the Federal rate as a basis for periodically adjusting the ranges of unacceptable item percentages now used to rate State inspection efforts.
STATUS: Recommendation valid/action not intended.
STATUS COMMENTS: The Department of Agriculture claims that the reviews of State and Federal plants are made for different reasons and that direct comparison would be neither practical nor consistent with policy.
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Administrator of the Food Safety and Inspection Service to implement proposed policy changes that would specify the number of times a State-inspected plant with unacceptable items should be revisited and the number of basic inspection items that should be covered.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
The date the Agency/Congress expects action to be completed: 07/84
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Administrator of the Food Safety and Inspection Service to include uncorrected items found during followup visits at State-inspected plants with unacceptable items when computing State ratings.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 07/84

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Administrator of the Food Safety and Inspection Service to eliminate, or substantially reduce, the influence of custom/exempt plant reviews on State program ratings. This should be done by either basing ratings solely on reviews of official State-inspected plants or, if the Secretary deems it more appropriate, making revisions to the present rating system.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should instruct the Administrator of the Food Safety and Inspection Service to include this area in all regular reviews of circuit operations made by the review and evaluation staff. The Administrator likewise should include this area in similar reviews of regional operations should such reviews be implemented on a regular basis in the future.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

TITLE: Equitable Interest Rates Are Needed for Farmers Home Administration Loans

RPTNO: RCED-83-157 DOCUMENT DATE: 08/12/83

ORGANIZATION CONCERNED:

Department of Agriculture

Farmers Home Administration

PRIMARY BUDGET FUNCTION:

902.0/Interest: Other Interest

LAW AUTHORITY:

Consolidated Farm and Rural Development Act

7 U.S.C. 1921

Housing Act of 1949

42 U.S.C. 1471

7 U.S.C. 1927

7 U.S.C. 1946

42 U.S.C. 1490a

BACKGROUND:

GAO reviewed the Farmers Home Administration's (FmHA) policies, procedures, and practices for setting and revising interest rates on farm, home, and community facility loans.

FINDINGS:

Between June 1981 and March 1982, FmHA approved about 94,000 housing and farm loans whose borrowers will receive subsidies or pay premiums totaling $112 million over the life of their loans. GAO noted that, because subsidies will exceed premiums, FmHA program costs on these loans could be increased by as much as $94 million. GAO found that FmHA has not developed an adequate rate review or decisionmaking process to allow judicious use of its discretionary authority to set interest rates on housing and farm loans. Specifically, the cutoff point for changing rates was an estimate established without analysis. Further, FmHA application of its own guidelines has resulted in inconsistencies. GAO stated that the lack of criteria resulted in inequitable treatment of borrowers within the same programs, and it questioned the 25-year period FmHA uses to set rates on real estate loans and the use of the municipal bond rate to set rates on community facility loans.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should direct the Administrator, FmHA, to use a revenue bond index to determine bond market rates for the purpose of setting interest rates on community facility loans.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture, to ensure continued validity of the maturity period being used to set interest rates, should direct the Administrator, FmHA, to periodically determine the actual maturity period of FmHA loans.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture, to better comply with the requirements of FmHA authorizing legislation, should direct the Administrator, FmHA, to use a 30-year maturity period to set interest rates on farm ownership, including limited-resource farm ownership, and single family housing loans.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should require the Administrator, FmHA, before extending FmHA authority, to develop specific, quantitative criteria to identify and weigh other factors in setting loan program interest rates.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture, to facilitate this change without adversely affecting the FmHA workload, should direct the Administrator, FmHA, to implement rate changes by the 5th work day of each month and require FmHA county supervisors to determine the maximum rate applicants can pay.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture,, to provide for changes in farm and home loan program interest rates in a timely, economical, and equitable manner, should direct the Administrator, FmHA, to revise interest rates monthly, setting new rates at the Treasury monthly cost-of-money rate with appropriate adjustments for limited-resource farm loans.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of Agriculture

TITLE Improved Management of Import Meat Inspection Program Needed

RPTNO: RCED-83-81 DOCUMENT DATE: 06/15/83

ORGANIZATION CONCERNED:

Department of Agriculture

Department of Agriculture. Food Safety and Inspection Service

PRIMARY BUDGET FUNCTION:

352.0/Agriculture: Agricultural Research and Services

DESCRIPTIVE NOTE:

Refer to Testimony, July 27, 1983, Accession Number 122003.

LAW AUTHORITY:

Meat Inspection Act

21 U.S.C. 601 et seq.

Poultry Products Inspection Act

21 U.S.C. 451 et seq.

BACKGROUND:

GAO reviewed the Department of Agriculture's administration of its import meat and poultry inspection program.

FINDINGS:

GAO found that, at the 10 highest volume ports where variances in the quantities of meat rejected ranged from 0.1 to 1.5 percent, procedures for controlling, sampling, and inspecting meat products differed because of: (1) regulations and instructions which were generally outdated, unclear, and inconsistent; (2) a lack of adequate supervision and training of inspection personnel; and (3) workload imbalance. The Automated Import Information System compiles inspection-result histories for countries and foreign plants. These histories are the basis for assigning the scope and extent of inspections. GAO found that, in some ways, regulations and instructions do not conform with the system's revised procedures. GAO and Food Safety and Inspection Service officials found that most inspectors cited the need for periodic training and better communication between inspectors from different ports as a way of standardizing inspections. Despite the apparent improvement in plant conditions, program changes are needed to better ensure that products are imported only from countries and plants meeting U.S. requirements. Recognizing the need for increased attention to foreign programs' regulatory comparability, the Service is developing a new systems approach for approving and monitoring foreign inspection systems. GAO believes that the new system should improve the Service's ability to assess these risks.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should direct the Food Safety and Inspection Service to develop a more systematic and objective way of compiling the results of plant reviews, using a statistically selected sampling of plants as a basis for apprising management of the overall effectiveness of foreign inspection systems in ensuring compliance with U.S. requirements. Periodic reviews of plants outside the sample should be made at least annually for considering such factors as volume of exports and rejections at U.S. ports. Plants not exporting to the United States should not be reviewed.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Food Safety and Inspection Service Administrator to emphasize to foreign inspection system officials that they are responsible for identifying and correcting deficiencies and, if warranted, delisting plants and request that they advise the Service of the reason(s) for each delistment.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 05/84

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Food Safety and Inspection Service to revise the foreign plant review form to better identify problems for future followup.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 05/84

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Food Safety and Inspection Service to develop more uniform objective criteria for use in reviewing and rating foreign plants.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 05/84

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Food Safety and Inspection Service to revise the meat and poultry inspection manual to specify the procedures foreign program officers are to follow in reviewing plants.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 05/84

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Food Safety and Inspection Service to develop work measurement standards to use in ensuring that ports are adequately staffed by full-time and/or temporary inspectors.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 08/84

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Food Safety and Inspection Service Administrator to assign an inspector-in-charge to all major ports, with appropriate written descriptions of responsibilities and duties, including a systematic review of case files.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 05/84

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Food Safety and Inspection Service Administrator to require that all inspection personnel be provided periodic refresher training and establish a structured on-the-job training program.

STATUS: Action completed and verified.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Food Safety and Inspection Service to emphasize to import inspectors that foreign inspection certificates be prepared in accordance with Service-prescribed procedures.

STATUS: Action completed and verified.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Food Safety and Inspection Service to establish new sampling techniques for wholesale cuts and carcasses which do not limit inspection to a predetermined portion of the product for major and critical defects.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should direct the Food Safety and Inspection Service to provide guidance to inspectors on the correct procedures for selecting samples shipped in combination bins.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should direct the Food Safety and Inspection Service to prescribe procedures for adequately and consistently controlling import meat products and inspection samples.
STATUS: Recommendation valid/action not intended.
STATUS COMMENTS: Although the agency took some action on this recommendation, it does not agree with the major concern that inspectors supervise the breaking of country-of-origin seals on refrigerated containers. Since the agency will not take action on the matter, no further followup is necessary.
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should direct the Food Safety and Inspection Service to prescribe the procedures for inspectors to use in handling skip lots.
STATUS: Action completed and verified.
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should direct the Food Safety and Inspection Service to authorize, through regulations, skip-lot sampling procedures for boneless manufacturing meat.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
The date the Agency/Congress expects action to be completed: 05/84
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should direct the Food Safety and Inspection Service to develop criteria for distinguishing among minor, major, and critical defects in canned packaged meat products.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should direct the Food Safety and Inspection Service Administrator to revise the meat and poultry inspection regulations, the manual, and other written instructions to provide clear, concise, and up-to-date guidance on the procedures import inspectors are to use in controlling, sampling, and inspecting products offered for entry.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture

TITLE: Federal Regulation of Meat and Poultry Products--Increased Consumer Protection and Efficiencies Needed
RPTNO: RCED-83-68 DOCUMENT DATE: 05/04/83
ORGANIZATION CONCERNED:
Department of Agriculture
Department of Agriculture: Food Safety and Inspection Service
PRIMARY BUDGET FUNCTION:
352.0/Agriculture: Agricultural Research and Services
LAW AUTHORITY:
Meat Inspection Act
21 U.S.C. 601
Poultry Products Inspection Act
21 U.S.C. 451 et seq.
BACKGROUND:
GAO reviewed the Department of Agriculture's (USDA) Food Safety and Inspection Service's (FSIS) regulation of processed meat and poultry products. The review was made to determine whether: (1) standards have been developed to help ensure consumers of the uniformity and consistency of products, (2) products are properly labeled; and (3) sampling procedures are efficient and effective.
FINDINGS:
Products made with mechanically separated meat and poultry contain some pulverized bone, bone marrow, and certain potentially harmful minerals. Consequently, to protect the public, FSIS established specific standards

and labeling requirements on mechanically separated meat (MSM). Although a USDA study has shown that similar health and safety problems exist for mechanically separated poultry (MSP), FSIS has not established specific requirements for these products. Because MSM is different from hand-separated meat in that it contains higher amounts of calcium and cholesterol, FSIS established product standards and labeling requirements to prevent MSM products with misleading labels from being sold to consumers. However, similar action has not been taken to protect consumers from products produced with MSP. In a related issue, FSIS has also established standards on the maximum fat and added water that cooked meat sausage products can contain to ensure the products' nutritional quality, but similar standards on cooked poultry sausage products have not been established. To ensure product compliance, FSIS takes three types of samples on processed meat products; however, GAO believes that changes could be made in each type of sample to improve efficiency and consumer protection.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should direct the Administrator, FSIS, to provide inspectors with timely results on product compliance. This could be accomplished by reducing the backlog of samples that need to be analyzed at the FSIS field laboratories. By reducing the number of samples as recommended above, fewer samples would be analyzed by the FSIS field laboratories and the sample results would be returned to the inspectors faster. FSIS could also encourage plants to use nearby accredited laboratories.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 02/84

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Administrator, FSIS, to enforce its procedures on investigating and resolving major discrepancies on split-sample results between FSIS field laboratories and the accredited laboratories.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 09/84

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Administrator, FSIS, to reduce verification sampling at plants with partial quality control systems that have good histories of compliance and reduce split sampling at plants that have accredited laboratories with good histories of compliance.

STATUS: Action in process: The date the Agency/Congress espects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 06/84

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Administrator, FSIS, to establish standards on the maximum fat and added water that cooked poultry and sausages can contain and appropriate sampling procedures to measure compliance with the standards.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 09/84

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Administrator, FSIS, to establish specific standards on MSP and labeling requirements on products made with MSP as has been done for MSM and products made with MSM.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 09/84

TARGET:

Department of Agriculture

TITLE: Small Percentage of Military Families Eligible for Food Stamps
RPTNO: FPCD-83-25 DOCUMENT DATE: 04/19/83

ORGANIZATION CONCERNED:

Department of Agriculture
Department of Defense

PRIMARY BUDGET FUNCTION:

604.0/Income Security: Housing Assistance and Other Income Supplements

LAW AUTHORITY:

P.L. 97-248
S. Rept. 97-494

7 U.S.C. 2014(d)
37 U.S.C. 101(25)

BACKGROUND:

GAO determined whether the reportedly large percentage of military families eligible for food stamps actually met the benefits criteria, and it reviewed the Department of Agriculture's (USDA) program administrative practices.

FINDINGS:

GAO found that only a small percentage of military families are eligible to receive food stamps and most of those families qualify only because their Government-furnished housing is not counted as income. However, there are some families who would be eligible for food stamps regardless of their housing status, and USDA has provided them with the appropriate information concerning their benefits. GAO noted that, under certain circumstances, especially when parents are assigned away from home, there is potential abuse of the program. Inadequate reporting of income and housing status changes also contributes to ineligible families' receiving food stamp benefits.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should instruct the food stamp caseworkers that, in addition to any other recertifications, they should recalculate food stamp eligibility for all military food stamp recipients at the same time the amount of the annually scheduled military pay raise becomes known.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 08/84

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should issue new guidelines that would ensure that households would not become eligible for food stamps solely because of an active duty-related absence.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 08/84

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture, in consultation with the Secretary of Defense, should propose legislation to amend 7 U.S.C. 2014(d) to require that Government-furnished housing be included in the gross income computation for determining food stamp eligibility.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of Agriculture

TITLE: Changes Are Needed To Assure Accurate and Valid Wheat Deficiency Payments

RPTNO: RCED-83-50 DOCUMENT DATE: 03/29/83

ORGANIZATION CONCERNED:

Department of Agriculture
Department of Agriculture: Statistical Reporting Service
Agricultural Stabilization and Conservation Service

PRIMARY BUDGET FUNCTION:

351.0/Agriculture: Farm Income Stabilization

LAW AUTHORITY:

Agriculture and Consumer Protection Act of 1973
P.L. 93-86

BACKGROUND:

GAO reviewed the Department of Agriculture's (USDA) system for making deficiency payments to wheat farmers. These payments are designed to supplement eligible wheat farmers' income in the years when wheat prices are low.

FINDINGS:

Farmers participating in the wheat crop program receive deficiency payments from USDA based on the difference between a target price and the lower national average market price of wheat. GAO believes that changes are necessary to ensure that accurate and valid payments are being made. Under the current system, overpayments or underpayments to farmers could be caused by: (1) inaccurate data which are used to establish the national average market price; (2) procedures used to determine production for the purpose of computing program payment amounts which overstate farmers' actual production; and (3) the imprecise method being used to calculate yields for farmers submitting evidence of actual production.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should direct the Administrator of the Agricultural Stabilization and Conservation Service to: (1) develop an acceptable adjustment for the deficiency payment program that properly accounts for the unharvested acreage on which payments are made; and (2) conduct a comprehensive analysis of the crop yield distributions to determine the extent to which program yields are inadequately assigned and develop crop yield frequency distributions for counties or similar areas to assist county committees in assigning yields to individual farms.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Administrator of the Statistical Reporting Service to adopt procedures to: (1) institute a system of quality control for the prices-received survey as suggested by the 1980 statisticians' report; (2) convey to enumerators the need for them to perform their job correctly and follow up to ensure that they do; (3) provide to each State a standard survey questionnaire with reporting instructions to eliminate possible reporting bias resulting from differing instructions and that clearly explain the purpose and importance of the survey; and (4) institute a followup program to obtain missing reports of quantities sold and amounts paid from grain buyers who were unable to provide requested data during the reported month; this would allow grain buyers more time to report accurate data and eliminate the need for using estimated average prices to compute the estimated average market price.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

TITLE: [Research and Extension Programs to Aid Small Farms]

RPTNO: RCED-83-83 DOCUMENT DATE: 02/09/83

ORGANIZATION CONCERNED:

Department of Agriculture

PRIMARY BUDGET FUNCTION:

352.0/Agriculture: Agricultural Research and Services

DESCRIPTIVE NOTE:

Refer to RED-76-2, August 15, 1975, Accession Number 096852.

BACKGROUND:

GAO reviewed the Department of Agriculture's (USDA) actions to implement the recommendations made in a 1975 GAO report to ensure that small-farm research and extension programs are practical, beneficial, and cost-effective.

FINDINGS:

The current GAO examination showed that research and extension services have been increased and that data collection activities have been expanded since the 1975 GAO report. However, to date USDA has neither: (1) developed data on the overall costs and benefits of small-farm extension activities, nor (2) adequately encouraged State extension services to establish procedures to identify small farmers most in need of assistance and to establish action plans to improve the participants' farming skills.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should direct the Administrator of the Federal Extension Service to work, cooperatively with the State extension services, to develop guidelines for carrying out special small-farm extension programs in a way that will provide technical assistance to the maximum number of small farmers and a means to collect data on and estimate the costs and benefits of small-farm extension program activities.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

TITLE: Skewed Bidding Presents Costly Problems for the Forest Service Timber Sales Program

RPTNO: RCED-83-37 DOCUMENT DATE: 02/09/83

ORGANIZATION CONCERNED:

Department of Agriculture

Forest Service

PRIMARY BUDGET FUNCTION:

302.0/Natural Resources and Environment: Conservation and Land Management

DESCRIPTIVE NOTE:

Refer to CED-82-88, June 23, 1982, Accession Number 118845.

BACKGROUND:

GAO was requested to examine the use of skewed bids on timber sales of the Department of Agriculture's Forest Service. Skewed bidding occurs when a bidder in a multispecies sale loads most of the bid value on a single tree species and offers the minimum price for the other species. GAO reviewed timber sales in the Service's three western regions where multispecies sales are common and skewed bidding occurs.

FINDINGS:

GAO found that the use of skewed bidding is causing costly problems for the Service timber sales program. During fiscal years 1980 and 1981, about $1.9 million in sales revenues was forgone on timber sales closed on 11 of the Service's western national forests, and the Forest must devote administrative resources to deal with the harvest management problems caused by skewed bidding. Timber harvesting on a species-by-species basis on skewed bid sales compounds the sale management problems. Species logging permits the purchaser to harvest the high-value trees on the sale last, thus delaying the receipt of sale revenues. Species logging also increases the risk that high-value trees will not be harvested and efforts to resell the timber may be unsuccessful in recouping the loss. Although skewed bidding affects the Service's three western regions, most Service efforts to control the practice have occurred at the individual region or forest levels rather than programwide. The three western regions have restricted bidding on minor species by setting various minimum volume bidding criteria. GAO found that restricting bidding to species with more than 10 percent of the sale volume had limited effect.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should require the Forest Service to prohibit logging on a species-by-species basis on skewed bid sales to reduce the adverse effects of past skewed sales.

STATUS: Action completed and verified.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Forest Service to control the use of skewed bids on future timber sales. In the short term, the Service could adopt a bid premium distribution procedure whereby the total bid premium on a timber sale would be spread among the species offered for sale in proportion to the volumes and values of the individual species. In the long term, the Service could require adoption of the fixed-price, lump-sum, tree measurement sales method once industry's concerns about this method are resolved to the Service's satisfaction.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 04/84

TARGET:

Department of Agriculture

TITLE: Need for Greater Efforts To Recover Costs of Food Stamps Obtained Through Errors or Fraud

RPTNO: RCED-83-40 DOCUMENT DATE: 02/04/83

ORGANIZATION CONCERNED:

Department of Agriculture
Department of Agriculture: Food and Nutrition Service

PRIMARY BUDGET FUNCTION:

604.0/Income Security: Housing Assistance and Other Income Supplements

DESCRIPTIVE NOTE:

Refer to Testimony, April 25, 1984, Accession Number 123992.

LAW AUTHORITY:

Social Security Act
Food Stamp Act of 1964
Food Stamp Act of 1977
Food Stamp Act Amendments of 1979
Food Stamp and Commodity Distribution Amendments of 1981
Omnibus Budget Reconciliation Act of 1981
Omnibus Budget Reconciliation Act of 1982
Agriculture and Food Act of 1981
Debt Collection Act of 1982
P.L. 97-365
H.R. 6394 (97th Cong.)
H. Rept. 97-759
S. Rept. 97-128
S. Rept. 97-504

BACKGROUND:

GAO conducted a review of the Food Stamp Program to see if improvements have been made in the identification and recovery of overissuances and the adjudication of cases involving alleged fraud since a 1977 report.

FINDINGS:

During fiscal years 1980 and 1981, the Federal Government lost about $2 billion through State overissuances of food stamp benefits, and eligible households received about $500 million less than they should have. The erroneous issuances resulted from administrative and recipient errors and fraud. Only about 1 cent of each overissued dollar was recovered. Using semiannual quality control results, the Food and Nutrition Service (FNS) can project the total amount of overissued and underissued benefits, but it has no reliable data on how many of these errors States identify with specific households. Data from six States indicated that, compared with total estimated overissuances, relatively few specific cases have been identified. GAO stated that the use of computer matching to identify and ultimately recover specific overissuances holds considerable promise, and legislation implemented in recent years provides needed financial incentives to identify more overissuance cases. Although States are required to establish claims against households identified as receiving overissuances, they have not always done so because collection was difficult; however, recent legislation provides financial incentives and requires offsets against benefits to households still in the program of recipient-caused errors. GAO found that States have not investigated or adjudicated many identified cases of potential fraud because of the problems they perceived in pursuing them and FNS has not acted in a concerted way to solve or lessen barriers to State fraud pursuit.

RECOMMENDATIONS TO CONGRESS

RECOMMENDATION: The congressional legislative and appropriations committees should direct the Secretary of Agriculture to evaluate and inform them of the results of any legislative changes and administrative efforts to improve the identification and collection of overissuances and the potential impact of any additional initiatives being considered in this area.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Congress

RECOMMENDATION: Congress should add a new section 13(b)(3) to require States to promptly take all necessary steps to recover any overissuances from households no longer participating in the program.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Congress

RECOMMENDATION: Congress should amend the Food Stamp Act of 1977, as amended, to require recovery of overissuances by reducing monthly benefits of recipient households regardless of the reason for the improper issuance.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Congress

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should assess the problems that State officials have reported or may report as barriers to adjudicating alleged food stamp fraud and, to the extent practical, provide the guidance and technical assistance necessary for resolving or decreasing the adverse effect of those problems.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should periodically evaluate States' investigation and adjudication efforts to determine whether States collectively and individually are adequately pursuing potential food stamp fraud.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should require States to periodically report pertinent information on their fraud pursuit activities. These reports should include information on all phases of fraud pursuit and adjudication, including the numbers and dollar amounts of all referrals to and from various levels of the investigative and adjudicative processes and the ultimate dispositions of the cases. Such data should identify backlogs in any of the investigative steps or adjudication procedures used.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should require that States' program operating plans include adequate: (1) methods and criteria for identifying cases in which a question of fraud may exist; (2) procedures, developed in cooperation with States' legal authorities, for referring to law enforcement officials cases in which a valid reason to suspect fraud exists; and (3) procedures for referring to an administrative fraud hearing process all cases not referred to or accepted for court prosecution for reasons other than insufficient evidence.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should determine the extent of recipient fraud within the Food Stamp Program and establish the appropriate level of State pursuit and adjudicative efforts needed to control recipient fraud.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should provide technical assistance, based on evaluation and monitoring efforts and other available information, to improve State claims establishment and collection activity as may be needed. Such assistance should include but not be limited to: (1) advice and help to States in developing appropriate accounting systems and controls needed to use the offset procedures most effectively, particularly in cases involving amounts owed from prior periods of households' participation; (2) identification and dissemination of available information on alternative and innovative collection techniques that States use in other programs, and that some States may use in this program, which could be used, or used more, to enhance collection of food stamp overissuances not subject to offset authority; and (3) assistance in implementing alternative collection strategies that hold promise for good results.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should evaluate each State's performance in establishing and collecting claims. Such evaluations should reveal individual State's, as well as programwide, strengths and weaknesses in the claims establishment and collection process and provide a basis for a FNS determination of whether administrative sanctions are warranted. As a minimum, these evaluations should include: (1) a review of the information in States' Status of Claims Against Households reports to assure that all claims and collection activity is reported accurately; (2) systematic reviews of Office of Inspector General reports, State management evaluations, and other analytical reports and statistical information on the States' success in claims and collection activity; and (3) onsite reviews of the effectiveness of each State's collection techniques, especially the required offset procedure.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should require FNS to revise the present claims report received from the States monthly to include information on the number and value of erroneous issuance cases identified through each of the various identification methods that are available. This information should be assessed and distributed to inform the States of the effectiveness of the different identification methods being used.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should require FNS to solicit, compile, and distribute to the States information on the availability of different kinds of data files that could and should be used to verify household data items that have a major bearing on program eligibility and benefit levels.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should explore with the States ways in which error-prone profiles could be used, in conjunction with computer matching and other identification techniques, to pinpoint household circumstances which have high error potential so that States' administrative resources can be directed toward corrective actions that will result in maximum benefits.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should issue regulations specifically requiring States to identify and correct erroneous issuance cases, either: (1) as a by-product of routine program procedures required for other purposes, such as recertifications; or (2) through computer matching and other specific identification techniques that can detect multiple program participation and discrepancies in household-reported eligibility/benefit data. These regulations should require that each State, as a minimum, identify erroneous issuances caused by classes of eligibility criteria that quality control results or other available information shows as causing substantial dollar errors in that State. Adequate implementation of this aspect of State operations should be specifically considered by FNS in determining whether administrative sanctions are warranted.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of Agriculture

TITLE: Agricultural Economics Research and Analysis Needs Mission Clarification

RPTNO: RCED-83-89 DOCUMENT DATE: 01/31/83

ORGANIZATION CONCERNED:

Department of Agriculture

Department of Agriculture: Economic Research Service

PRIMARY BUDGET FUNCTION:

352.0/Agriculture: Agricultural Research and Services

DESCRIPTIVE NOTE:

Refer to Testimony, June 22, 1983, Accession Number 121734.

LAW AUTHORITY:

Agricultural Research, Extension, and Teaching Policy Act (National)
Food and Agriculture Act of 1977
P.L. 95-113
Organic Act of 1862
7 U.S.C. 2201 et seq.

BACKGROUND:

GAO examined and clarified the Department of Agriculture's (USDA) economics research and analysis activities. GAO made its review in terms of the USDA Economic Research Service's (ERS) overall mission and program priorities and its relationship to that of State land-grant institutions. GAO also reviewed USDA activities with regard to planning, priority setting, and coordination of public sector agricultural economics research and analysis.

FINDINGS:

GAO found that there is a disagreement within the agricultural community on the roles of ERS and the land-grant institutions' departments of agricultural economics. Contributing to this problem is the lack of clear roles between ERS and land-grant institutions in their economics research. A systematic determination of research needs is important because some research needs must be given higher priorities than others. However, very little has been done to plan for, set priorities for, or coordinate overall public sector agricultural economics research and analysis activities. Decisions are often made on an ad-hoc basis with little coordination between USDA and the land-grant institutions. GAO concluded that, during the past few years, ERS has conducted socioeconomic research which GAO believes is questionable from a subject matter perspective, while other priority research and analysis needs have not been given adequate attention.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should provide leadership in planning and coordinating agricultural economics research and analysis by directing the Administrator, ERS, to actively encourage joint program planning for, and coordination of, agricultural economics research and analysis with the land-grant institutions as well as other interested Federal and State agencies.

STATUS: Action completed and verified.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture, in cooperation with the State land-grant institutions, should: (1) examine and clarify the Federal role in agriculture economics research and analysis, including the ERS role in relation to that of the land-grant institutions; and (2) prepare a statement of the ERS mission and role in relation to the State land-grant institutions and submit it to the appropriate congressional committees for their information and review.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 06/84

TARGET:

Department of Agriculture

TITLE: Department of Agriculture Could Do More To Help Farmers Conserve Energy
RPTNO: EMD-82-30 DOCUMENT DATE: 09/30/82
ORGANIZATION CONCERNED:
Department of Agriculture
Department of Energy
PRIMARY BUDGET FUNCTION:
272.0/Energy: Energy Conservation

BACKGROUND:

In response to a congressional request, GAO reviewed energy conservation measures which farmers could adopt in the near-term and Federal efforts to assist farmers in adopting such measures.

FINDINGS:

GAO reported that energy conservation measures that farmers can adopt in the near-term include: (1) more efficient water management, which can conserve both energy and water in the irrigation process; (2) conservation tillage to reduce the number of tractor trips across a field and thereby reduce fuel requirements; and (3) more efficient use of fertilizer, grain drying, and the maintenance and operation of farm machinery and equipment. Some farmers are not implementing energy conservation actions because they are reluctant to change from traditional methods, believing such changes could adversely affect crop yield and income and are too risky. However, certain farming practices that were commonplace only a few years ago are being reevaluated in terms of energy efficiency, cost, and yield potential. To overcome their reluctance to change, farmers need adequate information to assure them that energy conservation actions are also cost effective. Although energy conservation information is available, it is often too general and not applicable to individual farm situations. The Department of Agriculture's (USDA) field agencies could provide farmers with energy conservation information and the new USDA Office of Energy could be the focal point for energy conservation. Because of the Department of Energy's (DOE) uncertain funding situation, GAO is concerned about the future of its program.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretaries of Agriculture and Energy should enter into an Interagency Agreement, pursuant to the general USDA/DOE Memorandum of Understanding, for USDA to perform the overall management and monitoring of the ongoing DOE energy integrated farm systems demonstration projects. This should help assure that the Government's interests are protected and that the results of these projects are made available to the agricultural community.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:
Department of Agriculture

RECOMMENDATION: The Secretaries of Agriculture and Energy should enter into an Interagency Agreement, pursuant to the general USDA/DOE Memorandum of Understanding, for USDA to perform the overall management and monitoring of the ongoing DOE energy integrated farm systems demonstration projects. This should help assure that the Government's interests are protected and that the results of these projects are made available to the agricultural community.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:
Department of Energy

RECOMMENDATION: The Secretary of Agriculture should assign to the newly reestablished USDA Office of Energy responsibility for developing and carrying out an enhanced effort to promote energy conservation by farmers. Using its broad authority, this Office could coordinate and influence energy conservation activities of USDA field agencies to help assure that farmers receive assistance in identifying cost-effective energy conservation measures applicable to their specific farming situations.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:
Department of Agriculture

TITLE: Savings Are Possible Through Better Management of Government-Owned Dairy Products
RPTNO: CED-82-79 DOCUMENT DATE: 05/18/82
ORGANIZATION CONCERNED:
Department of Agriculture
Agricultural Stabilization and Conservation Service
PRIMARY BUDGET FUNCTION:
351.0/Agriculture: Farm Income Stabilization

LAW AUTHORITY:
Agricultural Act of 1949
7 U.S.C. 1421 et seq.
Agriculture and Food Act of 1981
P.L. 97-98

BACKGROUND:

GAO reviewed the Department of Agriculture's (USDA) policies and procedures for storing dairy products acquired through the dairy price-support program. The purpose of the review was to evaluate how these products were managed, because the Government-owned inventories of butter, cheese, and nonfat dry milk increased substantially during fiscal years 1980 and 1981, and these products comprise the largest share of Government-owned commodities.

FINDINGS:

USDA successfully located sufficient storage space for the dairy products, which increased from about 705 million pounds in fall 1979 to more than 2 billion pounds by fall 1981. GAO concluded that USDA would realize an estimated annual savings of up to $1.4 million if it purchased its requirements for 1-pound packages of butter directly from suppliers. Butter in 1-pound packages is used in the domestic school lunch and food-for-the-needy programs and is supplied by repackaging blocks of bulk butter. USDA did not act on previous recommendations to buy 1-pound packages of butter because of the large inventory of bulk butter on hand and its concern that the older stock would deteriorate before it was used. GAO concluded that warehouses storing the dairy products are examined more often than necessary. It was estimated that approximately 2600 staff hours of warehouse examiners' time could be saved annually if the frequency of examinations were reduced from three times to two times a year for warehouses that have good performance records. This would provide time for the decreasing staff of examiners to cope with an increasing workload.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should direct the Administrator of the Agricultural Stabilization and Conservation Service to identify those warehouses that have good performance records and reduce the examination frequency for these warehouses to twice a year.

STATUS: Action completed and verified.

TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should direct the Administrator of the Agricultural Stabilization and Conservation Service to establish a policy to buy the Department's requirements for 1-pound packages of butter directly from suppliers whenever possible. The Administrator should implement this policy immediately so that part of the requirement for the next full quarter could be acquired in this manner based on an analysis of projected needs and present inventory. For each succeeding quarter, the Administrator should reevaluate Government-owned butter inventories to determine the amount such purchases can be increased so that eventually all requirements can be obtained by direct purchases.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:
Department of Agriculture

TITLE: Illegal and Unauthorized Activities on Public Lands--A Problem With Serious Implications

RPTNO: CED-82-48 DOCUMENT DATE: 03/10/82

ORGANIZATION CONCERNED:
Department of Agriculture
Department of the Interior
Bureau of Land Management
Forest Service
National Park Service

PRIMARY BUDGET FUNCTION:
303.0/Natural Resources and Environment: Recreational Resources

DESCRIPTIVE NOTE:
Refer to GGD-77-28, June 21, 1977, Accession Number 102551.

LAW AUTHORITY:
Executive Order 12003
Dep't of the Interior Manual part 446
Dep't of the Interior Order 3307

BACKGROUND:

GAO reviewed the Federal role in providing outdoor recreation in California and Oregon.

FINDINGS:

GAO noted that field officials at selected locations of the Bureau of Land Management (BLM) and the Forest Service are not always effectively enforcing laws relating to illegal and unauthorized activities on public lands. Although the magnitude and seriousness of crimes such as burglary and larceny, marihuana cultivation, timber thefts, and trespassing are not fully known, available evidence indicates that such activities are widespread and increasing on BLM and Forest Service lands. Field officials of the National Park Service are doing a better job of enforcing laws and regulations; nevertheless, there is currently an increase in crimes against people and their property. In each of the three agencies, management constraints such as travel, vehicle, and duty restrictions limit efficient and effective law enforcement activities. Limited agency resources and the remoteness of the land contribute to the rise of illegal and unauthorized activities. However, the agencies' top management did not believe that a serious problem existed. This was due, in part, to a lack of information on these kinds of activities on the public lands managed by the agencies nationwide. The Department of the Interior has not developed an effective, uniform, and timely management information system as GAO previously recommended. The information system of the Forest Service is new, thus statistics are not yet available for the entire nation.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretaries of the Interior and Agriculture should direct the heads of the land management agencies to establish and effectively implement law enforcement information systems that provide management with essential and reliable reporting information on the seriousness and extent of crime on public lands. Such systems are vital to supervising and controlling law enforcement efforts.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretaries of the Interior and Agriculture should direct the heads of the land management agencies to establish and effectively implement law enforcement information systems that provide management with essential and reliable reporting information on the seriousness and extent of crime on public lands. Such systems are vital to supervising and controlling law enforcement efforts.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of the Interior

RECOMMENDATION: The Secretaries of the Interior and Agriculture should direct the heads of the land management agencies to remove manpower, resource, and policy constraints which impede efficient and effective law enforcement efforts, to the extent feasible, by giving emphasis and support to prevention activities, including preventive patrolling, making vehicles available when needed, and ensuring adequate coverage of law enforcement personnel through improved duty assignment planning.

STATUS: Action completed and verified. Accomplishment Report will be prepared.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretaries of the Interior and Agriculture should direct the heads of the land management agencies to remove manpower, resource, and policy constraints which impede efficient and effective law enforcement efforts, to the extent feasible, by giving emphasis and support to prevention activities, including preventive patrolling, making vehicles available when needed, and ensuring adequate coverage of law enforcement personnel through improved duty assignment planning.

STATUS: Action completed and verified. Accomplishment Report will be prepared.

TARGET:

Department of the Interior

RECOMMENDATION: The Secretaries of the Interior and Agriculture should direct the heads of the land management agencies to increase the level of law enforcement effort devoted to preventing and controlling the illegal and unauthorized activities which GAO identified. This action should instruct the field staffs to: (1) meet their obligations and responsibilities for dealing with these activities; and (2) foster mutual aid and cooperation with other law enforcement entities.

STATUS: Action completed and verified. Accomplishment Report will be prepared.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretaries of the Interior and Agriculture should direct the heads of the land management agencies to increase the level of law enforcement effort devoted to preventing and controlling the illegal and unauthorized activities which GAO identified. This action should instruct the field staffs to: (1) meet their obligations and responsibilities for dealing with these activities; and (2) foster mutual aid and cooperation with other law enforcement entities.

STATUS: Action completed and verified. Accomplishment Report will be prepared.

TARGET:
Department of the Interior

RECOMMENDATION: The Secretaries of the Interior and Agriculture should direct the heads of the land management agencies to give increased emphasis to using the agencies' law enforcement powers and carrying out their responsibilities whenever unauthorized activities affect resource management and use. Where necessary, existing regulations should be revised to deal specifically with the problems of crimes against persons and property, marihuana cultivation, timber theft, and trespassing. Also, the roles of land managers in enforcing such regulations should be clarified.

STATUS: Action completed and verified. Accomplishment Report will be prepared.

TARGET:
Department of Agriculture

RECOMMENDATION: The Secretaries of the Interior and Agriculture should direct the heads of the land management agencies to give increased emphasis to using the agencies' law enforcement powers and carrying out their responsibilities whenever unauthorized activities affect resource management and use. Where necessary, existing regulations should be revised to deal specifically with the problems of crimes against persons and property, marihuana cultivation, timber theft, and trespassing. Also, the roles of land managers in enforcing such regulations should be clarified.

STATUS: Action completed and verified. Accomplishment Report will be prepared.

TARGET:
Department of the Interior

TITLE: Millions Could Be Saved by Improving Integrity of the Food Stamp Program's Authorization-To-Participate System
RPTNO: CED-82-34 DOCUMENT DATE: 01/29/82

ORGANIZATION CONCERNED:
Department of Agriculture
Department of Agriculture: Food and Nutrition Service

PRIMARY BUDGET FUNCTION:
604.0/Income Security: Housing Assistance and Other Income Supplements

LAW AUTHORITY:
Food Stamp Act Amendments of 1980
P.L. 96-249
Food Stamp and Commodity Distribution Amendments of 1981
P.L. 97-98

BACKGROUND:

GAO reviewed the Department of Agriculture's use of the Authorization-to-Participate (ATP) system, the Food Stamp Program's principal benefit-delivery method. The purpose of the review was to make a preliminary assessment of the Food and Nutrition Service's efforts to ensure the integrity of the system which will deliver about $8 billion of the estimated $10.6 billion of food stamp benefits in fiscal year 1982.

FINDINGS:

GAO found that the ATP system has serious weaknesses. While losses through the system have been reported to be about $12 million annually, the inaccurate and incomplete reconciliation reports submitted by some food stamp agencies and the lack of reconciliation reports by others indicate that actual losses are greater. As a result, the Food and Nutrition Service does not know the full extent of the losses. Moreover, it has opted to assume the fiscal liability of these losses when in fact some could have been prevented by food stamp agencies. The Service has issued regulations requiring the use of photo identification at all food stamp projects. The new regulations also limit ATP card replacements, but duplicate transactions may still occur. GAO found that not all food stamp agencies that have serious ATP problems are required to use photo identification under the current criteria.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should direct the Acting Administrator of the Food and Nutrition Service to take specific measures to improve the Authorization-to-Participate (ATP) system's fiscal integrity, including: (1) determining those elements of existing ATP delivery systems which are most effective in preventing program losses and direct that the more effective methodologies be used where appropriate; (2) verifying data on the reconciliation reports by reviewing food stamp agencies' ATP issuance and reconciliation systems and records, identifying through these reviews food stamp agencies that may be more likely to have recurring duplicate ATP transactions, and analyzing these weaker systems and requiring the food stamp agencies to correct flaws contributing to program losses; (3) requiring photo identification at all food stamp agencies experiencing significant duplicate ATP transactions but not currently covered by the regulations; (4) including enforcing program regulations making States and local food stamp agencies liable for program losses that should have been prevented; and (5) including reevaluating the new ATP replacement regulations to determine if weaknesses in the regulations can be eliminated.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

TITLE: Legislative and Administrative Changes To Improve Verification of Welfare Recipients' Income Could Save Millions

RPTNO: HRD-82-9 DOCUMENT DATE: 01/14/82

ORGANIZATION CONCERNED:

Department of Health and Human Services
Department of Housing and Urban Development
Department of Agriculture
Department of Labor
Office of Management and Budget
Social Security Administration
Internal Revenue Service

PRIMARY BUDGET FUNCTION:

604.0/Income Security: Housing Assistance and Other Income Supplements

LAW AUTHORITY:

Unemployment Tax Act
26 U.S.C. 3304(a)
Tax Reform Act of 1976
Privacy Act of 1974
Housing and Community Development Act of 1974
Social Security Act
42 U.S.C. 1381
P.L. 95-216
P.L. 96-249

BACKGROUND:

GAO was requested to review the manner in which income and asset information is used and verified by administering agencies to determine eligibility for Federal assistance programs which provide benefits to needy individuals and families.

FINDINGS:

Underreporting of income and assets by recipients of benefits from needs-based programs, whether deliberate or otherwise, results in hundreds of millions of dollars in improper payments each year. Current verification requirements and practices are not adequate to prevent such payments. Verification requirements vary widely, but generally are vague or overly restrictive. Furthermore, some Federal laws and regulations preclude the use of information which, if available, would enhance the verification process.

RECOMMENDATIONS TO CONGRESS

RECOMMENDATION: Congress should amend the Federal Unemployment Tax Act to require that all States collect individual wage information on a quarterly basis for use in their unemployment insurance programs and in federally funded needs-based programs.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Congress

RECOMMENDATION: Congress should require that social security numbers be obtained for applicants and recipients of any federally funded needs-based program.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Congress

RECOMMENDATION: Congress should amend the Tax Reform Act of 1976 to permit disclosure of the Internal Revenue Service Information Return Processing File data on unearned income to Federal, State, and local agencies administering federally funded needs-based programs.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Congress

RECOMMENDATION: Congress should amend the Tax Reform Act of 1976 to permit disclosure of individual wage data, data on net earnings from self-employment, and payments of retirement income maintained by the Social Security Administration to Federal, State, and local agencies administering federally funded needs-based programs, whenever comparable data are not maintained at the State level.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:
Congress

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of HUD should require that available Federal and State wage data are used in the HUD annual Section 8 Housing management reviews to verify that housing managers are accurately determining applicants' or tenants' income.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:
Department of Housing and Urban Development

RECOMMENDATION: The Secretary of Housing and Urban Development (HUD) should require applicants for and tenants of Section 8 Housing to furnish copies of their Federal tax returns at the time of application and of recertification for use in determining their eligibility for rental assistance.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:
Department of Housing and Urban Development

RECOMMENDATION: The Secretaries of Agriculture and HHS should require that, in administering the programs, Federal, State, and local agencies use available Federal and State wage data and Social Security Administration retirement income and benefit data provided by the beneficiary data exchange and the State data exchange.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:
Department of Health and Human Services

RECOMMENDATION: The Secretaries of Agriculture and HHS should require that, in administering the programs, Federal, State, and local agencies use available Federal and State wage data and Social Security Administration retirement income and benefit data provided by the beneficiary data exchange and the State data exchange.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:
Department of Agriculture

RECOMMENDATION: The Secretaries of Agriculture and Health and Human Services (HHS) should acquire and make OPM wage data available to agencies that administer the programs. In this regard, administering agencies would have to comply with the guidelines for data matching under the Federal Privacy Act of 1974.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:
Department of Health and Human Services

RECOMMENDATION: The Secretaries of Agriculture and Health and Human Services (HHS) should acquire and make OPM wage data available to agencies that administer the programs. In this regard, administering agencies would have to comply with the guidelines for data matching under the Federal Privacy Act of 1974.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:
Department of Agriculture

RECOMMENDATION: The Director of OMB should direct that all Federal departments and agencies responsible for the needs-based programs issue regulations to require the use of the data with appropriate safeguards and that they establish mechanisms to monitor the use of the data.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:
Office of Management and Budget

RECOMMENDATION: The Director of the Office of Management and Budget (OMB) should identify which of the 58 federally funded needs-based programs should use Social Security Administration wage, self-employment earnings, retirement income, and benefit data; Office of Personnel Management (OPM) wage data; State wage data; and Internal Revenue Service information return data.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:
Office of Management and Budget

TITLE: Informing the Public About Food--A Strategy Is Needed for Improving Communication
RPTNO: CED-82-12 DOCUMENT DATE: 01/08/82
ORGANIZATION CONCERNED:
Department of Agriculture
Department of Health and Human Services
Federal Trade Commission
PRIMARY BUDGET FUNCTION:
352.0/Agriculture: Agricultural Research and Services
DESCRIPTIVE NOTE:
Refer to CED-80-89, April 21, 1980, Accession Number 112117; and CED-81-27, November 7, 1980, Accession Number 113759.

BACKGROUND:

Consumers need concise, clear food information as more food products come on the market and inflation drives food prices up. Food information, regulations, and programs have multiplied rapidly in the past decade. Some believe that the information resulting from these efforts is conflicting, confusing, and duplicative. GAO made a review to expand on its earlier suggestion that a cooperative undertaking was needed to develop a national food information strategy, which would include a system for performing research on foods and educating consumers.

FINDINGS:

The Federal Government has developed a wide array of regulations and programs to control food labels and to encourage and teach good food buying, storage, and preparation habits. GAO has identified over 125 Federal food data-gathering and information dissemination programs. There has been a heightened awareness of food issues, a safer food supply, and more coordination among Federal agencies with food information programs. However, lack of a national food information strategy has allowed programs and regulations to be developed piecemeal, so that they are sometimes inconsistent; based on inadequate data; and formulated without integrating the research, education, and communication components of the food information system. The United States could learn from steps which other nations have taken to improve their food information systems. Three Federal agencies have proposed requiring that food labels contain certain information without proper assurance that consumers need or would use the information. In 1980, GAO suggested that the proposal should not be implemented but that an overall food information strategy be developed cooperatively by a committee of representatives from the Government, industry, academia, and consumer groups. Food experts also feel that a consortium of key Federal officials should be established to pool their expertise and develop a national plan that would define U.S. food information needs and communication methods, provide additional scientific information on controversial issues, and evaluate existing programs.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretaries of Agriculture and Health and Human Services and the Chairman of the Federal Trade Commission should jointly develop and submit to concerned congressional committees and the President a strategy for improving the communication of food information to the public. The strategy should incorporate the views and ideas of the various food groups expressed in this report.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretaries of Agriculture and Health and Human Services and the Chairman of the Federal Trade Commission should jointly develop and submit to concerned congressional committees and the President a strategy for improving the communication of food information to the public. The strategy should incorporate the views and ideas of the various food groups expressed in this report.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Health and Human Services

RECOMMENDATION: The Secretaries of Agriculture and Health and Human Services and the Chairman of the Federal Trade Commission should jointly develop and submit to concerned congressional committees and the President a strategy for improving the communication of food information to the public. The strategy should incorporate the views and ideas of the various food groups expressed in this report.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Federal Trade Commission

TITLE: Continuation of the Resource Conservation and Development Program Raises Questions
RPTNO: CED-81-120 DOCUMENT DATE: 08/11/81
ORGANIZATION CONCERNED:
Department of Agriculture
Soil Conservation Service
PRIMARY BUDGET FUNCTION:
302.0/Natural Resources and Environment: Conservation and Land Management
LAW AUTHORITY:
Bankhead-Jones Act (Farm Tenant)
7 U.S.C. 1010
7 U.S.C. 1011
50 Stat. 525
Soil Conservation and Domestic Allotment Act
16 U.S.C. 590a et seq.
49 Stat. 163

BACKGROUND:

GAO reviewed the Department of Agriculture's Resource Conservation and Development (RC&D) program and the administrative and legislative changes needed to improve the control and operation of the program.

FINDINGS:

GAO was unable to develop a clear picture or measure of overall benefits under the program because program accomplishments are not clearly distinguishable at either the project or measure level. The principal problems involved lack of useful data, the intangible nature of some benefits, and varying or unknown degrees of project involvement. GAO was able to obtain cost information on the program overall and on each project but not on individual project measures. Pertinent technical assistance costs were not shown for individual measures. The omission of technical assistance costs in reporting completed measures seriously limited any attempt to evaluate the program's benefits in relation to its costs. Funds appropriated for cost sharing with local sponsors under the program have been used to finance many measures for which other Federal programs have been established. Once projects are authorized, they remain on the rolls indefinitely. Federally assisted sub-State planning organizations have the potential to become an alternative delivery system for activities carried out under the program because they perform many of the same functions. Some projects' area plans which specify goals, objectives, and measures to be undertaken have not been updated as required by program procedures.

RECOMMENDATIONS TO CONGRESS

RECOMMENDATION: If Congress decides to continue the RC&D program, it should legislatively direct the Secretary of Agriculture to establish several pilot projects where sub-State organizations would assume the functions of RC&D projects. Upon completion of such tests, the Secretary should be required to provide Congress an evaluation of the test results with such recommendations as may be indicated for transferring additional RC&D project functions to sub-State organizations or the reasons for retaining the functions within the existing RC&D program structure.

STATUS: Recommendation valid/action not intended.

STATUS COMMENTS: The Agriculture and Food Act of 1981 (P.L. 97-98) established an RC&D program and provided for the deauthorization of projects and for cooperative agreements with States and local units of government.

TARGET:
Congress

RECOMMENDATION: If Congress decides to continue the RC&D program, it should legislatively require the Secretary of Agriculture to establish procedures for periodically reviewing project operations and deauthorizing projects which are no longer active or have developed the capabilities necessary to continue operating without Federal involvement.

STATUS: Action completed and verified.

TARGET:
Congress

RECOMMENDATION: If Congress decides to continue the RC&D program, it should legislatively discontinue the use of program funds for installing project measures currently authorized for financing under cost sharing arrangements.

STATUS: Recommendation valid/action not intended.

STATUS COMMENTS: The Agriculture and Food Act of 1981 (P.L. 97-98) established an RC&D program and provided for the deauthorization of projects and for cooperative agreements with States and local units of government.

TARGET:
Congress

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should require the Soil Conservation Service to develop and incorporate an approved evaluation procedure into the program's management process.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
The date the Agency/Congress expects action to be completed: 08/84
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should require the Soil Conservation Service to monitor the program more closely to assure that the projects' area plans are up to date and reflect any changed conditions in project circumstances.
STATUS: Action completed and verified.
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should require the Soil Conservation Service to improve its program information system to provide data which would permit better assessment of project benefits.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
The date the Agency/Congress expects action to be completed: 08/84
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should require the Soil Conservation Service to account for and identify the costs of providing technical assistance for each project measure.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
The date the Agency/Congress expects action to be completed: 08/84
TARGET:
Department of Agriculture

TITLE: Lessons To Be Learned From Offsetting the Impact of the Soviet Grain Sales Suspension
RPTNO: CED-81-110 DOCUMENT DATE: 07/27/81
ORGANIZATION CONCERNED:
Department of Agriculture
Union of Soviet Socialist Republics
Department of Commerce
Department of State
Department of Agriculture: Commodity Credit Corp.
PRIMARY BUDGET FUNCTION:
351.0/Agriculture: Farm Income Stabilization
LAW AUTHORITY:
Food Security Wheat Reserve Act of 1980
P.L. 96-494
94 Stat. 2578
Commodity Credit Corporation Charter Act
15 U.S.C. 714 et seq.
Export Sales Reporting Act
7 U.S.C. 612c-3
Export Administration Act of 1979
50 U.S.C. App. 2401
Food and Agriculture Act of 1977
P.L. 95-113
91 Stat. 913
P.L. 96-234
94 Stat. 333
BACKGROUND:
On January 4, 1980, the President announced that, for foreign policy and national security reasons, the Federal Government was suspending the shipment of about 18 million metric tons of agricultural commodities to the Soviet Union. The President directed the Department of Agriculture to take actions to offset the suspension's impact on farmers. These offsetting actions, most of which were concerned with stabilizing market prices, included removing the suspended grain from the market by increasing the wheat and corn price-support loan rates, adjusting the farmer-owned reserve program, purchasing grain directly from farmers and country grain elevators, and purchasing exporters' undeliverable grain contracts with the Soviet Union.
FINDINGS:
Because of the short time between the decision to suspend shipments and the suspension's announcement, Agriculture was not able to analyze thoroughly the suspension's potential impact and to develop a comprehensive plan of offsetting actions. The lack of adequate planning caused Agriculture to: (1) erroneously anticipate that the farmer-owned reserve would efficiently remove the undeliverable grain; (2) purchase the exporters' Soviet contracts valued at about $2.4 billion with little documentation that such purchase was necessary; and (3) implement inefficiently the offsetting actions. Since any future suspension of the export of agricultural commodities may have a severe effect on the grain production and marketing industries, it is important that the potential effects of the various

actions that could be taken to offset the potential impact of any further suspensions be identified and analyzed. Agriculture's purchase and resale of the exporters' Soviet contracts and its purchase of corn and wheat from farmers were implemented in a manner which led to Federal losses or increased Federal costs. A Government monitoring program set up to identify illegal shipments to the Soviet Union was reasonably successful in identifying and discouraging direct shipments from U.S. ports to the Soviet Union. However, it was not feasible to closely monitor for possible unauthorized transshipments. The Soviet Union was able to substantially offset the suspension's impact by increasing imports from other countries and drawing down its reserves.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: If the Commodity Credit Corporation again considers open-market purchases as an offsetting action, the Secretary of Agriculture should direct it to purchase only the types and grades of commodities suspended from shipment and to make such purchases at prices within a reasonable amount of the existing market price.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 06/84

TARGET:

Department of Agriculture

RECOMMENDATION: If the Commodity Credit Corporation again considers purchasing exporters' contracts to offset the impact of any future suspensions, the Secretary of Agriculture should direct it to: (1) prepare an economic justification for each commodity involved in the suspension to determine if such purchase is necessary; and (2) estimate any suspension-related benefits and detrimental effects to the exporters and use both estimates in determining the extent of Federal assistance needed.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 06/84

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should, after assessing existing farm programs, develop and submit to Congress any legislative recommendations for modifying existing programs or instituting new programs that the Secretary finds are necessary in developing a contingency plan.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 06/84

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should develop and keep current a contingency plan that would include: (1) an assessment of whether existing farm programs are flexible enough to efficiently and effectively offset the impact of a grain sales suspension on farmers; (2) an evaluation of the types and availability of data needed to determine on short notice the extent and severity of a suspension's impact on farmers, grain elevators, grain transporters, and exporters; and (3) an analysis of the extent, if any, to which the impact on each of the agricultural sectors should be offset.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 06/84

TARGET:

Department of Agriculture

TITLE: Are Agencies Doing Enough or Too Much for Archeological Preservation? Guidance Needed

RPTNO: CED-81-61 DOCUMENT DATE: 04/22/81

ORGANIZATION CONCERNED:

Department of the Interior
Department of Agriculture
Department of Housing and Urban Development
Department of the Army: Corps of Engineers
National Park Service
Advisory Committee on Historic Preservation
Department of the Interior: Heritage Conservation and Recreation Commission
Forest Service
Office of Management and Budget
Department of Commerce: National Technical Information Service

PRIMARY BUDGET FUNCTION:

303.0/Natural Resources and Environment: Recreational Resources

DESCRIPTIVE NOTE:

Refer to Speech, January 21, 1982, Accession Number 117327.

LAW AUTHORITY:

Environmental Policy Act of 1969 (National)
P.L. 91-190
Historic Preservation Act
P.L. 89-665
Historic Sites Act
P.L. 74-292
Archaeological Resources Protection Act of 1979
P.L. 96-95
National Historic Preservation Act Amendments of 1980
P.L. 96-515
Antiquities Act
P.L. 59-209
Executive Order 11593
P.L. 86-523
P.L. 93-291
Dep't of Interior Order 3060

BACKGROUND:

Congress has passed the National Historic Preservation Act Amendments to provide additional guidance and clarification to the National Preservation Program. The amendments give the Secretary of the Interior the authority to waive the 1-percent limitation on the use of project funds to defray the costs of data recovery, increase the role of State historic preservation programs, and clarify Federal agency responsibilities. GAO reviewed the programs of eight agencies whose activities had potential major impacts on archeological sites, the operations of five State historic preservation offices, and the program management of the Heritage Conservation and Recreation Service and the Advisory Council on Historic Preservation.

FINDINGS:

The National Archeology Program, which costs about $100 million a year, is not working well. The Department of the Interior must provide better leadership and direction to Federal agencies and States. Without better guidance, some Federal agencies could spend billions of dollars over the next 10 to 30 years for archeological surveys, many of which may not be necessary, while other agencies may not do enough to identify and protect archeological sites. Interior has not established good criteria for agencies to use in determining whether identified sites are important to the national heritage nor has it provided guidance on the extent to which archeological resources must be recovered, recorded, or preserved to comply with Federal laws and regulations. This has resulted in project delays, increased costs, and general confusion over what is required to identify sites, determine their significance, and protect their resources. Federal departments and agencies interpret their responsibility for identifying archeological resources differently. Federal agencies rarely coordinate archeological overview studies which could avoid duplication and save money. State historic preservation offices could help Federal agencies determine which properties have State and local significance and are eligible for listing on the National Register. While some agencies limit archeological excavation to project areas, others require Federal permittees and grantees to excavate sites well outside those areas. Lack of information on program costs and accomplishments hampers the program.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of the Interior should establish formal coordination procedures among Federal and State agencies performing archeological overviews.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of the Interior

RECOMMENDATION: The Secretary of the Interior should require States to submit adequate plans as a condition of receiving Historic Preservation funds.

STATUS: Action completed and verified.

TARGET:

Department of the Interior

RECOMMENDATION: The Secretary of the Interior should finalize regulations setting forth detailed procedures explaining how Federal agencies are to conduct surveys and investigations to locate and identify archeological properties.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of the Interior

RECOMMENDATION: The Secretary of Agriculture should require the Forest Service to improve its program for identifying archeological resources by performing archeological surveys on Forest Service lands before timber harvests or other land-altering projects.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of the Interior should propose to OMB revisions to Executive Order 11593 to state that Federal agencies are required to conduct archeological surveys on Federal lands only (1) when a land-disturbing activity is planned; (2) when the operation of existing projects may threaten resources; or (3) on a sampling basis as part of overview studies for general planning purposes.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of the Interior
RECOMMENDATION: The Secretary of Agriculture should direct the Forest Service to improve its program for identifying archeological resources by monitoring projects to verify that significant archeological sites are protected.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should direct the Forest Service to improve its program for identifying archeological resources by making sufficiently comprehensive surveys to preclude the need to resurvey the same lands for future projects.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of the Interior should issue guidelines for the appropriate and consistent development of State archeological data management capabilities, State archeological surveys, and determination of State and local site significance.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of the Interior
RECOMMENDATION: The Advisory Council on Historic Preservation should require Federal agencies to relate data recovery to priorities defined in State historic preservation plans, where approved plans exist.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Advisory Committee on Historic Preservation
RECOMMENDATION: The Secretary of the Interior should make State historic preservation offices the focal point for determining whether archeological resources are significant enough to list on the National Register of Historic Places.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of the Interior
RECOMMENDATION: The Secretary of the Interior should promulgate regulations on Federal data recovery efforts and reporting systems including the specific circumstances and that extent to which agencies are required to excavate sites outside a project's direct impact area.
STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.
TARGET:
Department of the Interior
RECOMMENDATION: The Secretary of the Interior should promulgate regulations on Federal data recovery and reporting systems including who should pay for archeological work so that unnecessary project delays and increased costs can be prevented.
STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.
TARGET:
Department of the Interior
RECOMMENDATION: The Secretaries of HUD, Interior, and the Advisory Council on Historic Preservation should, either together or separately, seek the opinion of the Attorney General concerning the extent to which HUD is required to make archeological surveys to determine whether archeological resources will be affected by federally assisted housing projects.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of the Interior
RECOMMENDATION: The Secretaries of HUD, Interior, and the Advisory Council on Historic Preservation should, either together or separately, seek the opinion of the Attorney General concerning the extent to which HUD is

required to make archeological surveys to determine whether archeological resources will be affected by federally assisted housing projects.
STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.
TARGET:
Advisory Committee on Historic Preservation

RECOMMENDATION: The Secretaries of HUD, Interior, and the Advisory Council on Historic Preservation should, either together or separately, seek the opinion of the Attorney General concerning the extent to which HUD is required to make archeological surveys to determine whether archeological resources will be affected by federally assisted housing projects.
STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.
TARGET:
Department of Housing and Urban Development

RECOMMENDATION: The Advisory Council on Historic Preservation should require Federal agencies to define specific significant research questions to be addressed in data recovery, in order to justify archeological excavation costs.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Advisory Committee on Historic Preservation

RECOMMENDATION: The Secretary of the Interior should allocate a portion of Historic Preservation Fund grants for State preservation plan development and make available to States 70 percent Federal against 30 percent State matching grants to use in developing statewide plans based on criteria established by the Secretary in consultation with the various States.
STATUS: Action completed and verified.
TARGET:
Department of the Interior

RECOMMENDATION: The Secretary of the Interior should promulgate regulations on Federal data recovery efforts and reporting systems including the development of agency reporting systems for providing information to Interior and agency management on program costs and accomplishments so that program effectiveness can be monitored and reported to Congress.
STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.
TARGET:
Department of the Interior

RECOMMENDATION: The Secretary of the Interior should promulgate regulations on Federal data recovery efforts and reporting systems including improved dissemination of archeological reports to the National Technical Information Service so that information can be made available to the archeological profession and Federal, State, and local officials in a decisionmaking capacity.
STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.
TARGET:
Department of the Interior

RECOMMENDATION: The Advisory Council on Historic Preservation should require Federal agencies, on large and controversial archeological projects, to establish peer review panels to help agencies determine how much archeological excavation is necessary and to monitor contractor progress and performance.
STATUS: Action completed and verified.
TARGET:
Advisory Committee on Historic Preservation

RECOMMENDATION: The Secretary of the Interior should seek an amendment to the Archeological and Historic Preservation Act clarifying Interior's rulemaking authority.
STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.
TARGET:
Department of the Interior

TITLE: Better Data Needed To Determine the Extent to Which Herbicides Should Be Used on Forest Lands
RPTNO: CED-81-46 DOCUMENT DATE: 04/17/81
ORGANIZATION CONCERNED:
Department of Agriculture
Forest Service
Department of the Interior
Bureau of Land Management
PRIMARY BUDGET FUNCTION:
302.0/Natural Resources and Environment: Conservation and Land Management

LAW AUTHORITY:
Environmental Policy Act of 1969 (National)
42 U.S.C. 4321
BLM Manual 9222
Forest Service Manual 2476.41
Forest Service Manual 2155.3

BACKGROUND:

Vegetation management programs and practices on forest lands managed by the Department of Agriculture's Forest Service and the Department of the Interior's Bureau of Land Management were reviewed. The main areas of discussion were the use of herbicides, the controversy over herbicides, the controversy's effect on forest land managers, and the need for both agencies to take actions that would provide better information for making vegetation management decisions.

FINDINGS:

The use of herbicides for managing unwanted vegetation on forest lands has become a public controversy. In some cases, their use has been restricted. Growing opposition stemming from unanswered questions about herbicides' health and environmental effects could result in further restrictions. Although it has been shown that nonherbicide methods can be used to control unwanted vegetation in national forests, the extent to which these methods can replace herbicides is not known. Serious information gaps exist relating to the costs of vegetation management methods and their relative effectiveness. Most forests GAO visited had some success with alternatives to herbicides. However, site-specific data were not available to identify why methods had succeeded in one area but not in another.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretaries of Agriculture and the Interior should instruct the Chief of the Forest Service and the Director of the Bureau of Land Management, respectively, to ensure that (1) those forests and districts relying heavily on herbicides increase the use of nonherbicide methods; and (2) adequate site-specific pre-treatment and post-treatment information is gathered and evaluated. The Secretaries should also instruct the agency heads to develop more objective criteria for determining the need for release.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:
Department of Agriculture

RECOMMENDATION: The Secretaries of Agriculture and the Interior should instruct the Chief of the Forest Service and the Director of the Bureau of Land Management, respectively, to ensure that (1) those forests and districts relying heavily on herbicides increase the use of nonherbicide methods; and (2) adequate site-specific pre-treatment and post-treatment information is gathered and evaluated. The Secretaries should also instruct the agency heads to develop more objective criteria for determining the need for release.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:
Department of the Interior

RECOMMENDATION: The Secretaries of Agriculture and the Interior should instruct the Chief of the Forest Service and the Director of the Bureau of Land Management, respectively, to gather more comprehensive and complete cost data on their site preparation and release projects.

STATUS: Action completed and verified.

TARGET:
Department of Agriculture

RECOMMENDATION: The Secretaries of Agriculture and the Interior should instruct the Chief of the Forest Service and the Director of the Bureau of Land Management, respectively, to gather more comprehensive and complete cost data on their site preparation and release projects.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:
Department of the Interior

TITLE: The Nation's Unused Wood Offers Vast Potential Energy and Product Benefits
RPTNO: EMD-81-6 DOCUMENT DATE: 03/03/81

ORGANIZATION CONCERNED:
Department of Agriculture
Department of Energy
Department of Defense
General Services Administration
Environmental Protection Agency
Forest Service

PRIMARY BUDGET FUNCTION:
306.0/Natural Resources and Environment: Other Natural Resources
DESCRIPTIVE NOTE:
Refer to Testimony, July 30, 1981, Accession Number 090894.
LAW AUTHORITY:
Wood Residue Utilization Act of 1980
P.L. 96-554
Public Utility Regulatory Policies Act of 1978
92 Stat. 3117
Energy Tax Act of 1978
P.L. 95-618
Clean Air Act Amendments of 1977
42 U.S.C. 7401 et seq.
P.L. 95-617
P.L. 95-621
S. 1775 (96th Cong.)

BACKGROUND:

Immense quantities of wood residues are wasted in the United States in the form of decaying logging residues and dead trees, unused wood processing residues, and large, untapped acreages of small, defective, and other lower value trees. Wood residues could be an important energy source. A study was made of Federal policies that are contributing to this lost potential.

FINDINGS:

GAO identified numerous factors standing in the way of greater use of wood residues for energy and products. These barriers include inadequate data on the volume, location, accessibility, and availability of forest residues; lack of economical and effective equipment for harvesting and transportation of residues; lack of investment capital needed for harvesting and using residues; and limited awareness and acceptance of wood energy and product technology among industrial firms, utilities, and State and local bodies. Other obstacles pertain to Federal forest management policies and programs, utility practices and regulations, and environmental concerns related to greater use of residues. The Forest Service and the Department of Energy have made little progress in developing a national wood residue plan. The agencies should make a number of residue assessments in operating areas which are defined in terms of key factors such as topographical features, transportation corridors, economic hauling distances, and landowner attitudes. The Forest Service should take the lead in accomplishing the needed assessments. The Department of Energy should be an active participant in the studies. The assessments must deal more with resource management problems than end-use technology questions.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretaries of Agriculture and Energy should conduct a cooperative program of assessments in at least six locations around the country. The Secretaries should select the areas they believe hold the most promise for increased use of residues based on estimates of residue availability and cost and availability of competing energy sources. Specific information to be developed through assessments should include (1) the cost of making detailed residue inventories in each assessment area, with projections of costs to make such inventories regionally and nationally; (2) the volumes of wood residues that are potentially available in each area and the costs to collect and remove them using conventional equipment; (3) the specific needs for improved equipment to lower collection and removal costs; (4) the benefits and costs of, and alternative Federal roles in stimulating, greater removal and use of wood residues by modifying or initiating a number of possible forest management policies and programs on Federal, State, and private lands and encouraging private investment in new or modified facilities to use wood residues; and (5) the extent of, and alternatives for reducing, additional barriers to residue use caused by utility practices and regulations, air pollution regulations, and other factors.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretaries of Agriculture and Energy should conduct a cooperative program of assessments in at least six locations around the country. The Secretaries should select the areas they believe hold the most promise for increased use of residues based on estimates of residue availability and cost and availability of competing energy sources. Specific information to be developed through assessments should include (1) the cost of making detailed residue inventories in each assessment area, with projections of costs to make such inventories regionally and nationally; (2) the volumes of wood residues that are potentially available in each area and the costs to collect and remove them using conventional equipment; (3) the specific needs for improved equipment to lower collection and removal costs; (4) the benefits and costs of, and alternative Federal roles in stimulating, greater removal and use of wood residues by modifying or initiating a number of possible forest management policies and programs on Federal, State, and private lands and encouraging private investment in new or modified facilities to use wood residues; and (5) the extent of, and alternatives for reducing, additional barriers to residue use caused by utility practices and regulations, air pollution regulations, and other factors.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Energy

RECOMMENDATION: The Administrator of EPA, to help promote wood residue use in locations where current air pollution regulations preclude such facilities, should develop policies and procedures that (1) recognize emission trade-offs resulting from reduced burning of residues in the woods or in other locations and increased burning at proposed wood energy facilities; and (2) allow such trade-offs to be considered in deciding whether a wood-burning facility may be constructed and what type of pollution control equipment will be required.

STATUS: Recommendation valid/action not intended.

STATUS COMMENTS: EPA disagrees because it does not consider the best available control technology requirements to be a major obstacle to construction of wood burning plants. It cites at least four such plants which have received construction permits in the Pacific Northwest.

TARGET:

Environmental Protection Agency

RECOMMENDATION: The Administrator of EPA should request legislation to amend the Clean Air Act to allow full recognition of trade-offs in facilities siting decisions. The Administrator should encourage the States to modify their policies where needed to recognize such trade-offs.

STATUS: Recommendation valid/action not intended.

STATUS COMMENTS: EPA states that its policies already allow trade-offs to be considered in facilities siting decisions.

TARGET:

Environmental Protection Agency

RECOMMENDATION: The Secretary of Defense and the Administrator of General Services should assure, in implementing existing policies for conversion of their heating/power systems from oil and natural gas to alternative fuels, that wood is given equal consideration with coal in forested regions of the country. A canvass of wood conversion opportunities at all such facilities should be made to later be tested by the standard feasibility evaluation methods developed by the Forest Service and DOE. They should also issue procurement guidelines pointing out that, because of their value in meeting national energy goals, residue-based wood products be carefully considered as alternative materials for all construction and related application and related applications.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Defense

RECOMMENDATION: The Secretary of Defense and the Administrator of General Services should assure, in implementing existing policies for conversion of their heating/power systems from oil and natural gas to alternative fuels, that wood is given equal consideration with coal in forested regions of the country. A canvass of wood conversion opportunities at all such facilities should be made to later be tested by the standard feasibility evaluation methods developed by the Forest Service and DOE. They should also issue procurement guidelines pointing out that, because of their value in meeting national energy goals, residue-based wood products be carefully considered as alternative materials for all construction and related application and related applications.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

General Services Administration

RECOMMENDATION: The Secretary of Agriculture should (1) demonstrate Forest Service ability to conduct tree measurement sales and convert the agency's western region to the tree measurement basis as rapidly as possible; and (2) preserve logging residues for potential future use by foregoing burning whenever possible under sound forest management practices.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should (1) increase promotion of new reconstituted wood product technologies developed with Federal funds by allocating necessary resources to effectively disseminate information and provide technical assistance to forest products firms; and (2) adopt a more flexible policy which allows use of long-term contracts to assure that residues from National Forests will be available on a continuous basis when needed to achieve increased residue use in a given area.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should request legislation which would authorize the Department to grant private firms either title or an exclusive license in residue-handling equipment and reconstituted wood product technologies developed wholly or partly with Federal funds when needed to stimulate commercialization.

STATUS: Action completed and verified. Accomplishment Report will be prepared.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should upgrade the forest survey to provide an inventory of the potentially usable biomass of all trees and woody shrubs, logging residues, and dead trees on the nation's commercial forest lands.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretaries of Agriculture and Energy should (1) convert all Department facilities to wood fuels for all or part of their heating/power needs where life-cycle evaluations show them to be cost effective; and (2) identify and evaluate additional opportunities to demonstrate wood-energy technologies at Department facilities in order to enhance the prospects for future economic feasibility of such technologies.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretaries of Agriculture and Energy should (1) convert all Department facilities to wood fuels for all or part of their heating/power needs where life-cycle evaluations show them to be cost effective; and (2) identify and evaluate additional opportunities to demonstrate wood-energy technologies at Department facilities in order to enhance the prospects for future economic feasibility of such technologies.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Energy

RECOMMENDATION: The Secretaries of Agriculture and Energy should establish a program to promote use of wood fuels among industry, utilities, and State and local bodies through increased participation in demonstration projects and provision of educational materials and direct technical assistance.

STATUS: Action completed and verified.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretaries of Agriculture and Energy should establish a program to promote use of wood fuels among industry, utilities, and State and local bodies through increased participation in demonstration projects and provision of educational materials and direct technical assistance.

STATUS: Action completed and verified.

TARGET:

Department of Energy

RECOMMENDATION: The Secretaries of Agriculture and Energy should work jointly to develop standardized methods for evaluating the costs and benefits of using wood fuels in Federal facilities, including allowance for forest management benefits, and submit these methods to the Office of Management and Budget within 6 months for dissemination to the executive branch to assure consistency in life-cycle energy evaluation.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretaries of Agriculture and Energy should work jointly to develop standardized methods for evaluating the costs and benefits of using wood fuels in Federal facilities, including allowance for forest management benefits, and submit these methods to the Office of Management and Budget within 6 months for dissemination to the executive branch to assure consistency in life-cycle energy evaluation.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Energy

RECOMMENDATION: The Secretaries of Agriculture and Energy should work jointly to implement an accelerated program to develop and demonstrate residue-handling equipment in cooperation with private industry.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:
Department of Agriculture

RECOMMENDATION: The Secretaries of Agriculture and Energy should work jointly to implement an accelerated program to develop and demonstrate residue-handling equipment in cooperation with private industry.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:
Department of Energy

RECOMMENDATION: The Secretaries of Agriculture and Energy should present to Congress within two years a national wood residues plan, including proposed residue use goals and recommendations for legislation or other actions to overcome barriers to such goals. It should be supported by data on regional variations developed through the residue assessments.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:
Department of Agriculture

RECOMMENDATION: The Secretaries of Agriculture and Energy should present to Congress within two years a national wood residues plan, including proposed residue use goals and recommendations for legislation or other actions to overcome barriers to such goals. It should be supported by data on regional variations developed through the residue assessments.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:
Department of Energy

TITLE: Actions Needed To Increase Federal Onshore Oil and Gas Exploration and Development
RPTNO: EMD-81-40 DOCUMENT DATE: 02/11/81

ORGANIZATION CONCERNED:
Department of Energy
Department of the Interior
Department of Agriculture
Department of Defense
Bureau of Land Management
Department of the Interior: Geological Survey
Forest Service
United States Fish and Wildlife Service

PRIMARY BUDGET FUNCTION:
271.0/Energy: Energy Supply

LAW AUTHORITY:
Mineral Lands Leasing Act
30 U.S.C. 181 et seq.
30 U.S.C. 351 et seq.
Federal Coal Leasing Amendments Act of 1975
90 Stat. 1083
Wilderness Act
16 U.S.C. 1131 et seq.
Wild and Scenic Rivers Act
16 U.S.C. 1280
Department of Energy Organization Act
42 U.S.C. 7101
Engle Act (Minerals)
Land Policy and Management Act
Environmental Policy Act of 1969 (National)

BACKGROUND:
The use of Federal lands for fossil fuels exploration has become an important issue. Managing these lands involves difficult trade-offs between the often-conflicting issues of development, conservation, and environmental protection. An examination was performed on how the exploration and development of oil and gas from Federal lands could be accelerated.

FINDINGS:
GAO found that the use of Federal lands for fossil fuels exploration and development is hampered by: (1) the unavailability for leasing of prospectively valuable Federal oil and gas lands; (2) the imposition of stipulations on leases which restrict exploration and development; and (3) lengthy delays in the approval of Federal leases and drilling permits. GAO has determined that the first two of these issues are more significant due to the indefinite duration of actions which have closed lands, the severity of stipulations on leases, the large acreages involved, and their substantial oil and gas potential.

RECOMMENDATIONS TO CONGRESS

RECOMMENDATION: Congress should determine whether it wishes to be excluded from the review and possible disapproval of decisions to close lands to mineral leasing. If not, Congress should amend section 202(e) of the Federal Land Policy and Management Act to provide that the management decisions closing lands to mineral leasing and affecting smaller sized tracts should be reported to Congress. Section 202(e) should be further amended to require that the Department of the Interior submit with each report to Congress the minerals report described in section 204(c)(2) for withdrawals and any other information required in section 204(c)(2) which the Congress considers appropriate. Congress should also amend section 3 of the Engle Act so that the withdrawal information for military applications conforms with the Land Policy and Management Act's section 204(c)(2) requirements for mineral analyses.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Congress

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of the Interior should: (1) establish criteria upon which ``no leasing'' decisions must be based and also require the Bureau of Land Management to maintain records of ``no leasing'' decisions adequate enough to permit periodic congressional oversight; (2) require the Bureau to inventory lands which have been closed by management decision to oil and gas leasing, and then retain closure only to the extent it can demonstrate that a continuation of the decision not to lease is based on the criteria defined above; (3) direct the Bureau to give priority to evaluating the pre-Environmental Policy Act of 1969 Defense withdrawals under the Bureau's withdrawal review program; (4) direct the Geological Survey to review the oil and gas potential of the Fish and Wildlife Service's refuges in the lower 48 States; (5) direct the Bureau to develop a withdrawal review program to include the remaining 38 States; and (6) direct the Bureau to inventory and justify lands withheld from the simultaneous leasing system.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of the Interior

RECOMMENDATION: The Secretary of Defense should formulate a minerals policy, consistent with current national energy needs and evaluations of oil and gas potential on affected lands, that will provide guidance to the military services in making installations available to leasing.

STATUS: Action completed and verified.

TARGET:

Department of Defense

RECOMMENDATION: The Secretary of the Interior should direct the Bureau of Land Management to: (1) change its guidelines implementing the Environmental Policy Act of 1969 to defer the requirement for environmental assessments for oil and gas activities until surface disturbance is proposed; (2) establish standard time frames for completion of lease processing; (3) work with surface management agencies to develop cooperative agreements and goals for lease processing; and (4) develop a standard followup system for tracking outstanding lease applications. The Secretary should direct the Geological Survey to: (1) clearly state in its guidelines what the operator is required to submit; (2) review drilling permit applications and notify an applicant within 7 days of the filing date if his application is incomplete; (3) develop standard procedures for tracking and recording actions; and (4) coordinate with operators so that they have an archaeologist available during joint-site inspections.

STATUS: Action completed and verified.

TARGET:

Department of the Interior

RECOMMENDATION: The Secretaries of Agriculture and the Interior should direct the Forest Service and the Bureau of Land Management, respectively, to establish standards and criteria for the use of restrictive stipulations, such as surface disturbance and ``no surface occupancy'' restrictions. Leasable lands should then be inventoried to determine the extent of the use of such stipulations and to verify if the stipulation use meets the standards and criteria. Stipulation uses which are determined to be unjustified should be removed.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of the Interior

RECOMMENDATION: The Secretaries of Agriculture and the Interior should direct the Forest Service and the Bureau of Land Management, respectively, to establish standards and criteria for the use of restrictive stipulations, such as surface disturbance and ``no surface occupancy'' restrictions. Leasable lands should then be inventoried to determine the extent of the use of such stipulations and to verify if the stipulation use meets the standards and criteria. Stipulation uses which are determined to be unjustified should be removed.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:
Department of Agriculture

TITLE: Facilities in Many National Parks and Forests Do Not Meet Health and Safety Standards
RPTNO: CED-80-115 DOCUMENT DATE: 10/10/80

ORGANIZATION CONCERNED:
Department of the Interior
Forest Service
Department of Agriculture
National Park Service

PRIMARY BUDGET FUNCTION:
302.0/Natural Resources and Environment: Conservation and Land Management

DESCRIPTIVE NOTE:
Refer to Report, August 26, 1982, Accession Number 119308.

LAW AUTHORITY:
Safe Drinking Water Act
P.L. 93-523
Safe Drinking Water Amendments 1977
P.L. 95-190
Water Pollution Control Act Amendments of 1972 (Federal)
P.L. 92-500
Clean Water Act of 1977
P.L. 95-217

BACKGROUND:
The National Park and Forest Services have not protected the health and safety of their visitors and employees. Substandard water and sewer systems and hazardous lodges, dormitories, bridges, and tunnels need to be repaired, upgraded, or limited in their use.

FINDINGS:
Health and safety inspectors found some facilities to be so hazardous that they recommended immediate closure until the facilities could be repaired or upgraded. The costs of bringing facilities up to standard range from $5,000 to $3.2 million. The Services took a broad range of actions once they became aware that a facility did not meet health and safety standards. The actions ranged from immediate closure of facilities to doing little. GAO was told of numerous actions taken to improve deficient facilities, but the improvements were often not sufficient to meet safety and health standards. During fiscal years 1979 through 1981, 50 percent of the construction funds that the Park Service recommended, and 69 percent of the recreation construction funds that the Forest Service requested were for projects other than health and safety. To correct identified health and safety deficiencies, the Park Service will have to spend about $1.6 billion, and the Forest Service needs about $109 million. There would have to be a five-fold increase in appropriations over the construction funds requested for fiscal year 1981. Two alternative funding methods are: charging higher entrance and camping fees at parks and forests, and negotiating with concessioners on a case-by-case basis to make health and safety improvements on facilities they own or manage.

RECOMMENDATIONS TO CONGRESS

RECOMMENDATION: Congress should give priority to funding projects for repairing and upgrading facilities with the most serious health and safety hazards at parks and forests.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
The date the Agency/Congress expects action to be completed: 09/87

TARGET:
Congress

RECOMMENDATION: Congress should repeal section 402 of Public Law 96-87 (93 stat. 666) to permit the Park Service to increase entrance fees and direct that the Services use funds resulting from increased entrance and camping fees for health and safety projects in the parks and forests where they are collected.

STATUS: Recommendation valid/action not intended.

STATUS COMMENTS: Congress has funded health and safety improvements out of general revenue funds, rather than repealing legislation to increase fees. The recommendation to repeal section 402 is still valid and is tracked in GAO report CED-82-84.

TARGET:
Congress

RECOMMENDATION: Congress should require that the Secretaries of Agriculture and the Interior periodically report on the condition of the facilities until they are improved to meet all health and safety standards.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 09/87

TARGET:

Congress

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretaries of Agriculture and the Interior should take immediate action to correct health and safety problems with available funds or restrict the use of facilities that do not meet health and safety standards.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 09/87

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretaries of Agriculture and the Interior should take immediate action to correct health and safety problems with available funds or restrict the use of facilities that do not meet health and safety standards.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 09/87

TARGET:

Department of the Interior

RECOMMENDATION: The Secretaries of Agriculture and the Interior should negotiate with concessioners to have them make corrections to facilities they own or operate to bring them up to applicable health and safety standards.

STATUS: Action completed and verified. Accomplishment Report will be prepared.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretaries of Agriculture and the Interior should negotiate with concessioners to have them make corrections to facilities they own or operate to bring them up to applicable health and safety standards.

STATUS: Action completed and verified. Accomplishment Report will be prepared.

TARGET:

Department of the Interior

RECOMMENDATION: The Secretaries of Agriculture and the Interior should request a special appropriation from the Congress to correct the most serious health and safety hazards.

STATUS: Recommendation valid/action not intended.

STATUS COMMENTS: Congress has made appropriations from general revenue funds to correct the most serious health and safety hazards.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretaries of Agriculture and the Interior should request a special appropriation from the Congress to correct the most serious health and safety hazards.

STATUS: Recommendation valid/action not intended.

STATUS COMMENTS: Congress has made appropriations from general revenue funds to correct the most serious health and safety hazards.

TARGET:

Department of the Interior

RECOMMENDATION: The Secretaries of Agriculture and the Interior should request a greater share of their construction funds for repairing and upgrading facilities to bring them up to health and safety standards.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 09/87

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretaries of Agriculture and the Interior should request a greater share of their construction funds for repairing and upgrading facilities to bring them up to health and safety standards.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

The date the Agency/Congress expects action to be completed: 09/87

TARGET:

Department of the Interior

TITLE: The Special Supplemental Food Program for Women, Infants, and Children (WIC)--How Can It Work Better?
RPTNO: CED-79-55 DOCUMENT DATE: 02/27/79
ORGANIZATION CONCERNED:
Department of Health, Education, and Welfare
Department of Health, Education, and Welfare: Centers for Disease Control
Department of Agriculture: Food and Nutrition Service
Department of Agriculture
PRIMARY BUDGET FUNCTION:
604.0/Income Security: Housing Assistance and Other Income Supplements
DESCRIPTIVE NOTE:
Refer to Testimony, April 25, 1984, Accession Number 123992.
LAW AUTHORITY:
Child Nutrition Act of 1966
42 U.S.C. 1786
Child Nutrition Amendments of 1978
P.L. 95-627
92 Stat. 3603

BACKGROUND:
A follow-on review of the Special Supplemental Food Program for Women, Infants, and Children (WIC), Department of Agriculture, was conducted.

FINDINGS:
Several WIC programs did not provide needed health services as requested by Congress. Many of the programs were affected by the following: (1) required professional assessments of applicants' nutritional status were not being made in some locations; (2) States used different criteria for judging whether applicants were nutritional risks and eligible for the program and supplemental food packages seldom were tailored to participants' individual nutritional needs; (3) nutrition education and program evaluation have not received the priority and attention they deserve; and (4) program regulations contain provisions hindering effective evaluations.

RECOMMENDATIONS TO CONGRESS
RECOMMENDATION: Congress should monitor the Department of Agriculture's actions on the GAO recommendation that Agriculture work with the States and local agencies and with the Department of Health, Education, and Welfare to provide needed services in those present and planned program areas where adequate health services are not available, accessible, and acceptable.
STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.
TARGET:
Congress
RECOMMENDATION: Congress should address the problem of whether benefits of the food supplement part of WIC alone warrant its expansion to areas where needed health services cannot be delivered.
STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.
TARGET:
Congress
RECOMMENDATION: Congress should revise authorizing WIC legislation to clearly require that participants receive needed health services where such services are available, accessible, and acceptable, with possible exceptions based on participants' religious beliefs.
STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.
TARGET:
Congress

RECOMMENDATIONS TO AGENCIES
RECOMMENDATION: The Secretary of Agriculture should drop from program regulations the proposed provision that participants not be denied supplemental food for failure to attend or participate in nutrition education activities. In light of the need for local WIC programs to fully integrate nutrition education into WIC program regulations, such restrictions on methods by which this can be effectively accomplished would be counterproductive and at odds with program goals.
STATUS: Recommendation valid/action not intended.
STATUS COMMENTS: The agency will not act on this recommendation. It believes that WIC participants should be encouraged, but not required, to receive nutrition education.
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should, where adequate health services are not available, accessible, and acceptable in present and planned WIC program areas, direct that the Department work with the States and local public and private agencies, and with HEW, to provide the needed services.
STATUS: Action completed and verified.
TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should make certain that Department reviewers keep close watch on State efforts to arrange for appropriate health services for WIC program participants and to ensure that such services are actually available to participants as needed.

STATUS: Action completed and verified.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should, to ensure that future legitimate program evaluators have access to needed information on participants' health status, direct the Food and Nutrition Service to revise its regulations to give Agriculture and GAO personnel access to participants' medical information, but require that these personnel protect the privacy of the participants.

STATUS: Recommendation valid/action not intended.

STATUS COMMENTS: The agency will not act on this recommendation . It takes the view that confidentiality of participant medical information must be preserved.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should provide more specific guidance and direction to the States, and through the States to the local programs, as to how to structure and implement an effective nutrition education program for WIC participants. Part of this effort should entail designating a Service headquarters official responsible for the nutrition education component of the WIC program. It also should involve close coordination with HEW to develop and implement an appropriate nutrition education policy and to prepare, distribute, and update related teaching materials for the WIC program.

STATUS: Action completed and verified.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should require that States and other authorized grantees take more effective measures to ensure that health services will be available to all potential participants in WIC before approving new local programs or major program expansions. Such measures should include a requirement that specified documentation from sponsor applicants show detailed information about public and private health service capacity in the target area, including firm agreements with private doctors and other health providers that would assure needed care for low income WIC participants.

STATUS: Action completed and verified. Accomplishment Report will be prepared.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should require that individual food packages be prescribed to provide the kinds and quantities of foods needed to meet the specific nutritional needs of each recipient. Such prescriptions should be based on systematic feedback from nutritional risk assessments make by competent professionals and should specifically provide that greater or lesser amounts of food than contained in the current standard package be authorized and prescribed in accordance with case-by-case professional determinations of need.

STATUS: Action completed and verified.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should work with HEW and recognized professional groups, such as the American College of Obstetricians and Gynecologists and the American Academy of Pediatrics to develop uniform standards and criteria for determining what constitutes bonafide nutritional/health risks for the different classes of WIC program participants (women, infants, and children). Such criteria should be uniformly applied across the board to ensure equitable and consistent treatment of the program's target population.

STATUS: Recommendation valid/action not intended.

STATUS COMMENTS: The agency will not agree to act on this recommendation. It says that there is no need for, or benefit to be gained from, the development and use of uniform standards and criteria.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture should make certain that the Department's regional offices and its internal audit staff systematically evaluate and report on State management controls over (1) the nature, extent, and frequency of the nutritional risk assessments of program participants, and (2) the basis for, and extent of, food package prescriptions made to enable individual participant's nutritional/health needs to be met.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should direct that research be started to obtain the needed information to enable Agriculture to effectively implement the legislative provision in the newly enacted Child Nutrition Amendments.
STATUS: Action completed and verified.
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should require that nutritional risk assessments be made at specified intervals by competent professionals in accordance with established uniform criteria, and that the results of all such assessments, including assessments by outside providers, be made available to clinic staff for program purposes.
STATUS: Action completed and verified. Accomplishment Report will be prepared.
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should preclude disincentives to food package tailoring by specifically prohibiting States from considering food costs in distributing administrative funds to local agencies.
STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should arrange for Agriculture and HEW to jointly determine whether sufficient acceptable health services will be available for an expanded WIC program to operate as an adjunct to good health care. If problems appear likely in this regard, the executive branch should consult Congress and, within the framework of the Government's overall budget policy, consider various alternative solutions geared to maximizing the effectiveness of available health resources.
STATUS: Action completed and verified.
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should require that the Department evaluate and report on State monitoring of the content and overall effectivenesss of nutritional education given to participants at the local level.
STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
TARGET:
Department of Agriculture
RECOMMENDATION: The Secretary of Agriculture should ensure that all States, especially Illinois and Washington, are properly interpreting Federal program regulations as requiring that needed health services, including prenatal and pediatric care, be made available to WIC participants.
STATUS: Action completed and verified.
TARGET:
Department of Agriculture

TITLE: Federal Domestic Food Assistance Programs: A Time for Assessment and Change
RPTNO: CED-78-113 DOCUMENT DATE: 06/13/78
ORGANIZATION CONCERNED:
Department of Agriculture
Department of Health, Education, and Welfare
Community Services Administration
PRIMARY BUDGET FUNCTION:
604.0/Income Security: Housing Assistance and Other Income Supplements
LAW AUTHORITY:
Food Stamp Act of 1977
P.L. 95-113
91 Stat. 913
91 Stat. 958
91 Stat. 968
7 U.S.C. 2017
School Lunch Act
42 U.S.C. 1760(e)
Child Nutrition Act of 1966
42 U.S.C. 1780(b)
Older Americans Act of 1965
BACKGROUND:
Thirteen major Federal domestic programs, costing several billion dollars annually, provide food or food-related assistance to needy Americans. The programs are administered by the Department of Agriculture, the Department of Health, Education, and Welfare (HEW), and the Community Services Administration (CSA).

FINDINGS:

These programs have helped many people obtain more adequate diets. However, the large and accelerating costs of the programs, their piecemeal authorization and administration, and proposals for comprehensive welfare reform have created a need and opportunity to examine the programs' interrelationships and effectiveness. Multiple participation in the programs, which is sanctioned in legislation, has created a situation in which benefits often exceed amounts needed for thrifty food plan diets. Food stamp allotments ranged from 82 percent to 164 percent of the cost of such diets. Savings could be realized by making adjustments for different ages and sexes of household members. The extent of food benefit gaps and overlaps cannot be measured precisely because of inadequate data collection. Administrative problems result from varying eligibility criteria and procedures, lack of a uniform definition of needy, and inadequate program coordination. There is also a lack of adequate data to determine the proper level of benefits, interrelationships of the programs, and the nutritional effectiveness of the programs.

RECOMMENDATIONS TO CONGRESS

RECOMMENDATION: Congress, on the basis of results of the executive branch's feasibility study, should require a single State/local agency to be responsible for the application, certification, verification, referral, and monitoring aspects of designated Federal food programs to help assure, along with the authorization and implementation of consistent eligibility criteria and procedures, a more equitable and efficient delivery of Federal food assistance to needy Americans.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Congress

RECOMMENDATION: Congress, on the basis of results of the executive branch's feasibility study, should eliminate the receipt of duplicative benefits, particularly between the food stamp and school lunch programs, by allowing consideration of benefits received from one Federal food assistance program when determining eligibility and benefit levels for other Federal food assistance programs.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Congress

RECOMMENDATION: Congress should consolidate major Federal food assistance programs by bringing under one program Federal cash and commodity assistance currently provided by the school lunch and school breakfast programs, and evaluate the need for Federal reimbursement of free milk served under the special milk program in elementary schools and child care institutions already participating in the school lunch, school breakfast, and/or child care food programs.

STATUS: Action completed and verified.

TARGET:

Congress

RECOMMENDATION: Congress should authorize the Secretary of Agriculture to implement individualized food stamp allotments nationwide if Agriculture's demonstration projects show the administrative feasibility of such allotments.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Congress

RECOMMENDATION: Congress should approve an explicit national policy on the appropriate levels of food assistance to be provided to needy Americans by the Federal Government.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Congress

RECOMMENDATION: Congress should adopt a uniform definition of the word ''needy'' and establish consistent criteria for determining who is eligible for Federal food assistance programs.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Congress

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should study the administrative feasibility of: (1) considering food benefits from child-feeding programs; (2) using food stamps to purchase free or reduced-price meals under the child-feeding programs; (3) adjusting thrifty food plan costs to reflect potential participation in the child-feeding programs; and (4) turning over the application, certification, verification, referral, and monitoring aspects of the child-feeding programs and WIC to local welfare offices which now also handle food stamp certification, verification, and monitoring. The results of this study should be reported to Congress together with a recommendation for such authorizing legislation as may be necessary.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should study the administrative feasibility of: (1) considering food benefits from child-feeding programs; (2) using food stamps to purchase free or reduced-price meals under the child-feeding programs; (3) adjusting thrifty food plan costs to reflect potential participation in the child-feeding programs; and (4) turning over the application, certification, verification, referral, and monitoring aspects of the child-feeding programs and WIC to local welfare offices which now also handle food stamp certification, verification, and monitoring. The results of this study should be reported to Congress together with a recommendation for such authorizing legislation as may be necessary.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of Health and Human Services

RECOMMENDATION: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should study ways for encouraging the exchange of information among local food program administrators to assist them in identifying potential or ineligible recipients. Legislative changes that might be needed to implement the procedures which the study finds to be the most effective should be recommended to Congress.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should study ways for encouraging the exchange of information among local food program administrators to assist them in identifying potential or ineligible recipients. Legislative changes that might be needed to implement the procedures which the study finds to be the most effective should be recommended to Congress.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of Health and Human Services

RECOMMENDATION: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should provide mechanisms to assure that persons in need of, or receiving, specific benefits from such programs as school lunch, WIC, title VII, AFDC, or SSI are aware of and referred to other food programs that they are eligible for.

STATUS: Recommendation valid/action not intended.

STATUS COMMENTS: With Public Law 97-35 (August 13, 1981), Congress prohibited use of Federal funds for outreach activities.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should provide mechanisms to assure that persons in need of, or receiving, specific benefits from such programs as school lunch, WIC, title VII, AFDC, or SSI are aware of and referred to other food programs that they are eligible for.

STATUS: Recommendation valid/action not intended.

STATUS COMMENTS: With Public Law 97-35 (August 13, 1981), Congress prohibited use of Federal funds for outreach activities.

TARGET:

Department of Health and Human Services

RECOMMENDATION: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should explore alternatives to the Special Supplemental Food Program for Women, Infants, and Children (WIC) food delivery systems and, if appropriate, propose legislation to implement the best alternative.

STATUS: Recommendation valid/action not intended.

STATUS COMMENTS: WIC vouchers are now for specific items; they are distributed to meet individual needs.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should explore alternatives to the Special Supplemental Food Program for Women, Infants, and Children (WIC) food delivery systems and, if appropriate, propose legislation to implement the best alternative.

STATUS: Recommendation valid/action not intended.

STATUS COMMENTS: WIC vouchers are now for specific items; they are distributed to meet individual needs.

TARGET:

Department of Health and Human Services

RECOMMENDATION: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should establish demonstration projects in one or more localities to evaluate the increased administrative cost and error, if any, that would result from an individualized system of food stamp allotments; that is, allotment levels based on a recipient household's receiving the exact number of free food stamps needed to meet the difference between the cost of the thrifty food plan, as calculated for the number, sex, and ages of the members of that particular household, and 30 percent of the household's net monthly income for food stamp purposes. The demonstration project results should be reported to Congress.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should establish demonstration projects in one or more localities to evaluate the increased administrative cost and error, if any, that would result from an individualized system of food stamp allotments; that is, allotment levels based on a recipient household's receiving the exact number of free food stamps needed to meet the difference between the cost of the thrifty food plan, as calculated for the number, sex, and ages of the members of that particular household, and 30 percent of the household's net monthly income for food stamp purposes. The demonstration project results should be reported to Congress.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of Health and Human Services

RECOMMENDATION: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should develop and implement ways to measure, in a more coordinated, timely manner, the nutritional status of the general U.S. population, especially the participants and nonparticipants in the major Federal food assistance programs, including such traditionally high risk groups as the poor, the elderly, young children, and women of child-bearing age, and use this data to estimate the nutritional effectiveness of the Federal food assistance programs.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should develop and implement ways to measure, in a more coordinated, timely manner, the nutritional status of the general U.S. population, especially the participants and nonparticipants in the major Federal food assistance programs, including such traditionally high risk groups as the poor, the elderly, young children, and women of child-bearing age, and use this data to estimate the nutritional effectiveness of the Federal food assistance programs.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:

Department of Health and Human Services

RECOMMENDATION: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should propose consistent income and asset eligibility requirements and procedures for the appropriate Federal food assistance programs and study the effects of such requirements and procedures on program participation, costs, and work incentives. The results of this study should be reported to Congress along with a recommendation for such authorizing legislation as may be necessary.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:

Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should propose consistent income and asset eligibility requirements and procedures for the appropriate Federal food assistance programs and study the effects of such requirements and procedures on program participation, costs, and work incentives. The results of this study should be reported to Congress along with a recommendation for such authorizing legislation as may be necessary.

STATUS: Action not yet initiated: Agency/Congress intends to act but has not started.

TARGET:
Department of Health and Human Services

RECOMMENDATION: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should initiate on a priority basis periodic national surveys of low-income households to determine the types and amounts of cash and in-kind food benefits received and the precise extent of current overlaps and gaps, both in terms of program costs and nutrient intake, among the major Federal programs involving food assistance, including Aid to Families with Dependent Children (AFDC) and Supplemental Security Income (SSI).

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:
Department of Agriculture

RECOMMENDATION: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should initiate on a priority basis periodic national surveys of low-income households to determine the types and amounts of cash and in-kind food benefits received and the precise extent of current overlaps and gaps, both in terms of program costs and nutrient intake, among the major Federal programs involving food assistance, including Aid to Families with Dependent Children (AFDC) and Supplemental Security Income (SSI).

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)

TARGET:
Department of Health and Human Services

TITLE: Forest Service Efforts To Change Timber Sale Payment Method
RPTNO: RED-75-396 DOCUMENT DATE: 07/16/75

ORGANIZATION CONCERNED:
Forest Service
Department of Agriculture

PRIMARY BUDGET FUNCTION:
302.0/Natural Resources and Environment: Conservation and Land Management

BACKGROUND:
The primary timber sale method used in the Forest Service's western regions has been log measurement. Under this method a purchaser agrees to pay for logs on the basis of a Forest Service or scaling bureau estimate of the marketable volume of wood in logs that have been cut. In recent years, the Service has been trying to increase its western regions' use of the tree measurement method of selling timber. Under this method the purchaser agrees to pay a specific amount for the timber in a sale area on the basis of a Forest Service estimate of the marketable volume of wood in the trees before they are cut down. Because of industry opposition to this method, the Service has attempted, through test sales, to obtain data to compare the two methods.

FINDINGS:
In a report to Senator Pete V. Domenici, GAO pointed out that, because the Service had not provided special funds and adequate guidelines and procedures for conducting test sales, (1) there had been inconsistencies among the regions in carrying out the test sales, and (2) the relative accuracy and cost of the two methods had not been determined. The Service issued revised guidelines and procedures in March 1975 but had not established a test-sale program completion date or plans for special funding. Until the program is completed, the Service will not be able to provide well-documented evidence to settle the questions of effectiveness and cost of the two methods.

RECOMMENDATIONS TO AGENCIES

RECOMMENDATION: The Secretary of Agriculture should direct the Chief of the Forest Service to: (1) set dates for timely completion of test sales and give high priority to meeting those dates; (2) take steps to provide the Forest Service's regions with the funds needed to conduct adequate and timely test sales; (3) evaluate and report to the appropriate congressional committees the results of test sales as they are completed for specific forests, tree species, and timber conditions; and (4) use the tree measurement method for all forests, tree species, and timber conditions for which test sales have shown net benefits to be gained from its use and where Forest Service personnel have the capability to prepare tree measurement sales professionally and accurately.

STATUS: Action in process: The date the Agency/Congress expects action to be completed (if known)
The date the Agency/Congress expects action to be completed: 12/84

TARGET:
Department of Agriculture

LIST OF WITNESSES, COMMUNICATIONS, AND PREPARED STATEMENTS

Page

Abdnor, Hon. James, U.S. Senator from South Dakota, statement of 20
Arnesen, John H., Assistant Administrator, Telephone, Rural Electrification Administration 1

Banister, G. Huntington, Director, Operations and Budget, Commodity Futures Trading Commission 167

Claunts, Frank P., Director, Division of Financial Management, Food and Drug Administration 105

Donald, James R., Chairman, World Agricultural Outlook Board, statement of 542

Farm Credit Administration, 1984 Report to Congress 551
Fitzpatrick, Martin F., Jr., Director, Office of Transportation, Department of Agriculture, statement of 418
Franke, John J., Jr., Assistant Secretary for Administration, Department of Agriculture, statement of 218

General Accounting Office Report and ongoing studies 586
Gilles, Kenneth A., Administrator, Federal Grain Inspection Service, statement of 443
Graziano, John V., Inspector General, Department of Agriculture, statement of 308

Hawkins, B.W., Administrator, Animal and Plant Health Inspection Service, statement of 356
Hews, Edward D., Deputy Manager, Federal Crop Insurance Corporation 41
  Biographical sketch 53
Highley, Vern F., Administrator, Agricultural Marketing Service, statement of 396
Houston, Dr. Donald L., Administrator, Food Safety and Inspection Service, statement of 475
Hunter, Harold V., Administrator, Rural Electrification Administration 1
  Prepared statement 3

Itteilag, Anthony, Deputy Assistant Secretary, Budget, Department of Health and Human Services 105

Jones, B.H. (Bill), Administrator, Packers and Stockyards Administration, statement of 467

Kay, Thomas O., Deputy Assistant Secretary, Office of Governmental and Public Affairs, Department of Agriculture, statement of 265
Kelly, Michael W., Assistant General Counsel, Electric and Telephone Division, Office of the General Counsel, Rural Electrification Administration 1
Kibler, William E., Administrator, Statistical Reporting Service, statement of 525

Lee, John E., Administrator, Economic Research Service, statement of 511

Page

Meyer, Gerald F., Associate Commissioner for Management and Operations, Food and Drug Administration 105

Novitch, Dr. Mark, Acting Commissioner of Food and Drugs, Food and Drug Administration 105
  Prepared statement 107

Oliver, Daniel, General Counsel, Department of Agriculture, statement of 325

Phillips, Susan M., Chairman, Commodity Futures Trading Commission 167
  Prepared statement 168
Phillips, Willard (Bill), Jr., Director, Office of Rural Development Policy, Department of Agriculture, statement of 337

Scanlon, Thomas M., Director Office of Budget, Rural Electrification Administration 1
Scarlett, Thomas, Chief Counsel, Food and Drug Administration 105
Sherman, Robert, Deputy Budget Officer, Department of Agriculture 1, 41
Sprague, Merritt W., Manager, Federal Crop Insurance Corporation 41
  Prepared statement 42
Stockton, Blaine D., Jr., Assistant Administrator, Management, Rural Electrification Administration 1

Tendick, Donald L., Deputy Executive Director, Commodity Futures Trading Commission 167
Torgerson, Randall E., Administrator, Agricultural Cooperative Service, statement of 456

Van Mark, Jack, Deputy Administrator, Rural Electrification Administration 1

Zoller, Joseph S., Assistant Administrator, Electric, Rural Electrification Administration 1

SUBJECT INDEX

DEPARTMENT OF AGRICULTURE

FEDERAL CROP INSURANCE CORPORATION

Page
Actuarial study 81
Administrative and operating expenses 45
Administrative costs 93, 97
Administrative reimbursements 76
Advertising 71, 95
Agricultural Stabilization and Conservation Service disaster programs 64
Appeal process 67
Appropriations 68, 99
Auditing claims 98
Budget:
    Justifications 45, 55
    Request 53
Cancellations 85
Claims processing 66, 68, 92
Computer problems 82
Congressional directives 101
Contingent liability 86
Cotton and rice 72
County area classifications 88
Coverages, change in 57
Crop experience, 1983 .... 42, 54
Crop insurance 74
    1984 57
    Disaster assistance 59
    In Florida 103
    Losses 60
Crop projections, 1984 44
Crop year 1984, expansion in 54
Detecting transferred business 102
Determining commissions 90
Drought in 1983, effect of 58
Emergency loans and crop insurance 75
Estimating participation and funding 101
Exhibits 46, 56
Expanded crop programs 70, 89
Farm disaster programs 64
Farmers Home Administration borrowers and crop insurance 92
Federal Crop Insurance Corporation versus private companies 78
Financial institutions 80
Fiscal year 1985, methodology for 102
Florida, specialty crops in 71
Gain and loss percentages 100
Idaho, participation in 91

Page
Increased premiums 95
Increasing farmer participation 65
Insufficient funds 100
Insurance and the middle group of farmers 74
Insurance delivery 79
Loss:
    Adjustment costs 87, 94
    Adjustments in 1985 97
    Ratios 57, 83
Mandatory individual yield coverage 79
New county crop programs 88
Participation and cancellation 69
Participation rates 64, 73
Payment-in-kind program 73
Premium income and administrative expenses 69, 99
Premium subsidy 46
Prior year obligations 94
Private companies, payments to 90
Private sector:
    Involvement 89
    Shift of functions to 61
Program changes, 1984 55
Program expansion 69
Projections 58
Ratemaking process 75
Reception and representation costs 94
Reinsured companies 67, 75, 87
    Allowances paid to 77
    Master marketers 88, 96
    Premium levels for 77
Reinsureds, gains and losses 100
Shortfalls 84
South, sales in 58
Staff resources 77, 78
Supplemental, 1984 .... 46, 55, 63
Tomato and pepper pilot program 103
Tracking sales 86
Transferred business, compensation for 95
Treasury, funds returned to 93
Updating county programs 88

RURAL ELECTRIFICATION ADMINISTRATION

Administrative budget 7
Applications on hand 16
AT&T divestiture 18
Borrower delinquencies 26
Borrowers:
    Needs of 11
    Regulation of 16
Budget:
    Deficits 3
    Proposals 6, 10
Concurrent supplemental financing ratios 17
Economic recovery 3
Electric retail rates 15
Insured loans 11
Interest costs and retail rates 22

Page

Interest rates 23
Legislation 13
Loan funds 12
Loan guarantees 17
Nuclear plant involvement 28
Office of Management and Budget 13
Private financing 19
Rescission proposal 12, 28
Revolving fund 5, 9, 14, 24
Rural communication development fund 39
Rural Electrification Administration 1
  Changes in 8
S. 1300 .... 19, 21
Secretary of Agriculture 20
Telephone banks 27
  Capitalization of 23
  Conversion of 22
Telephone program 26

SUBMITTED MATERIAL

Acarine mite 365
Accomplishments in 1983 511
Additional staff-years 516
Adulterated beef 416
Advisory committees 220, 246, 447
Advocacy and awareness 344
African swine fever 371
Agency activities 473
Agricultural Cooperative Service 456
Agricultural exports 520
Agricultural Labor Affairs Office 410
Agricultural Marketing Service:
  Contracts for Food and Nutrition Service 417
  Merger with Federal Grain Inspection Service programs 404
  New responsibilities 397
  Role of 396
Agricultural quarantine inspection 387
Aircraft 382
Airport inspections 365
American agriculture, protection for 364
Animal and Plant Health Inspection Service 356
  Buildings and facilities 382
  Program successes 357
Animal quarantine facilities 371
Animal welfare 372, 388
Attorneys 334
Avian influenza 361, 374, 501
Boll weevil 366
Border inspection activities, consolidation of 366
Boxed beef production 470
Brucellosis 376
Budget 402, 472, 506
Cargo preference 425
Caribbean basin initiative 408
Cattle king 508
Changes proposed for 1985 512
China, transportation in 434

Page
Commodity Futures Trading Commission liaison 473
Compliance reviews 504
Computer matching 320
Congressional testimony 334
Conservation analysis 521
Construction 389
Consumer information 502
Contracting 323
Cooperative statistics 463
Coordination 341
Cost reduction efforts 397
Council on Integrity and Efficiency 322
Crop and livestock reports 532, 540
Data collection 517
Departmental:
    Activities 315
    Administration 218
    Directives 267
Economic Research Service 511
    Relocation 516
Emergency:
    Preparedness 271, 410
    Recalls 501
    Surplus removal 417
Endangered Species Act 389
Enforcement 382, 507
Equipment 495
Export complaints 502
Export/import inspection 378
Farm Credit Administration 551
Farm:
    Cooperative sector 456
    Population 522
Farmers Home Administration 312
Farmland values 520
Federal Crop Insurance Corporation 332, 336
Federal Grain Inspection Service 443
    Budget request 446
Fee impact 407
Field office structure 332, 453, 465, 506
Fire ants 367
Fiscal year 1985:
    Appropriation request 398
    Budget 362, 471, 476, 516, 525
    Plans 527
Food and Nutrition Service 314
Foreign travel 452
General Accounting Office recommendations 523
Geographic breakdown 411
Golden nematode 391
Grace Commission 322
Grade and weight 470
Grader qualifications 406
Grading and certification service use 405
Grain elevator explosions 454
Grants-to-States 495
Great Lakes and Public Law 480 427

Page
Gypsy moth 368, 386
Hawaiian field office 460
Illegal aliens 522
Import-export increase 496
Import inspection program 480
Increased operating costs 500
Industry research assessments 409
Inspections 451
Institutions, research with 515
Intergovernmental affairs 306
International programs 379, 391, 460
Investigations 473
Joint agricultural weather facility 550
Kansas City relocation 454
Laboratory services 496, 500
Land and water conservation fund 331
Landsat 537, 549
Leadership 340
Legislative concerns 448
Livestock marketing 468
Loaned positions 333
Macroeconomy project 517
Management:
    Reviews 244, 452, 494
    Support to other agencies 406
Market news reports 406, 411
Marketing:
    Agreements and orders 405
    Services appropriation request 399
Meat:
    Grading 413
    Import inspection 323
    Marketing 469
Mediterranean fruit fly 392
Merit pay 224
Meteorological data base 547
Metro and nonmetro unemployment rates 522
Miscellaneous animal disease program 379
Miscellaneous plant pest program 369
Monthly magazine 463
National Academy of Sciences study 508
National residue program 484
National Technical Center 455
Native American working group 305
News, satellite distribution of 266
Noxious weeds 370, 393
Object classification 450
Office of Governmental and Public Affairs 265
    Human Nutrition Information Service 266
Office of Rural Development Policy 337
    Budget request 345
Office of the General Counsel 325
    Current activities 328
    Responsibilities 334
    Workload 327

Page
Office of the Inspector General 308
  Budget request 317
  Office automation 319
Office of the Secretary 218
Office of Transportation 418
  Department of Transportation 440
  Economic Research Service 441
  Budget request 424
Operating costs 517
Operations, scope of 468
Organizational structure 499
Other import/export inspection 508
Other services 495, 515
Packer and poultry 469
Passenger motor vehicles 537
Pay cost 384
Payment-in-kind program 311, 336, 519
Petroleum research 464
Planned redirections 385
Plant variety protection program 371, 405, 409
Policy research 515
Poultry marketing 470
Program:
  Changes, 1984 512
  Increases and decreases 362
  Integrity 476, 497
Proposed egg inspection changes 408
Pseudorabies 380
Psittacosis 381
Public broadcasting 412
Public health activities 308
Public Law 480 427
Publications 267, 537, 549
Regulatory review 474
Research and policy development 343
Research and technical assistance 462
Residue program 505, 509
Rural America:
  Review 352
  Versus urban America 351
Rural development strategy 338, 349
Rural Electrification Administration 313, 319
Rural resources guide 351
Safety 445
Sanction policy 474
Savings versus appropriations 321
Scales and weighing 471
Section 32 396, 401, 415
Senior Executive Service 224
Service complaints 407
Service improvement efforts 398
Slaughter inspection 489, 492
Sodium labeling 501
Space assignments 224
Staff reduction 461
Staff-years ceiling 531
Standard level user charges 221, 246

Page
State inspectors 496
States and industry, cooperation with 360
States, payments to 401
Statistical clearance function 536
Statistical Reporting Service 525
Supervision program 444
Supplemental appropriation 453
Technical assistance 441
Total quality control 503
Transportation:
    Needs 418
    Research 465
Travel 354, 494
Truck strike in 1983 440
User fees 393, 451
Varroa mite 371
Warehouse task force 404
Weather forecasting 548
Wholesale market development 409
Witchweed 395
Working capital fund 221, 249
Working group on rural development 353
World Agricultural Outlook Board 546
Yearbook of Agriculture 307

FOOD AND DRUG ADMINISTRATION

Accutane 155
Antibiotics in animal feed 121
Arthritis medicines 152
Artificial sweeteners 122
Aspartame 147
Budget request 116
Contingency fund 118
EDB, concerns about 113
Ethylene dibromide 137
Food processing plants, surveys of 157
Freedom of information 127
Grades, reduction in 124
Grant funding overview fiscal year 1983 140
Minor use animal drugs 164
National Center for Toxicological Research 131
New:
    Beltsville facility 129
    Drug approval 113
    Laboratory facilities 114
    Laboratories, equipment for 117
Nicorette 153
Orphan drugs 112, 122, 140, 163
Over-the-counter diet pills 146
Pacemaker lead failures 138
Product tampering 118
Red Dye No. 3 160
Saccharin 138
Small business program 129
Sodium labeling 121
    Program 143
Sodium, information on 113

Page

- Sulfiting agents, safety review of 142
- Tamper-resistant packaging 128
- Toxicological research facility 119
- User charges 117, 126
- Veterinary biologics 136
- YAG lasers 163

COMMODITY FUTURES TRADING COMMISSION

- Additional self-regulatory organizations 178
- AgReport 202
- Agricultural options 175
- Automated reporting requirements 195
- Budget request 171
- Cash settlement, potential benefits of 215
- Cattle futures 214
- Chicago Board of Trade suit 210
- Chicago Mercantile Exchange request for rule change 213
- Compulsory membership 180
- Computer capabilities 188
  - Logical growth of 188
- Congressionally mandated studies, progress of 196
- Customer complaints 186
- Domestic agricultural commodities:
  - Options on 193
  - Options pilot program on 191
- Education program 200
- Exchange and National Futures Association responsibilities, overlap of 173
- Futures industry, growth in 171
- Inside information, trading of 200
- Investigations, source of 186
- Jurisdictional accord 211
- Market manipulation, prevention of 212
- Marketing surveillance program 196
- National Futures Association 173, 178, 183
  - Cooperative relationship with 173
  - Coordination with 182
  - Regulation of membership 184
  - Regulatory functions to be performed by 174
- Off-exchange commodity fraud, State jurisdiction in 185
- Registration fees 181
  - Collection of 172
- Regulatory functions, assumption of 179
- Rule enforcement review 175, 209
- Securities and Exchange Commission-Commodity Futures Trading Commission relationship 209
- Staff-years 171
- Staffing and funding 189
- State and Federal assistance unit 176
- Violations 187

O